WORLD ECONOMIC SURVEY 1962

I. The Developing Countries in World Trade

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Department of Economic and Social Affairs

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FOREWORD

This report, *World Economic Survey, 1962,* is the fifteenth 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 designed to meet the needs of the general public.

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 to saving, and industrialization and economic development.

This year special interest attaches to the position of the developing countries in world trade, particularly in view of the decision by the Economic and Social Council and the General Assembly to convene a United Nations Conference on Trade and Development in 1964. (Economic and Social Council resolution 917 (XXXIV) and General Assembly resolution 1785 (XVII).)

A provisional agenda for the Conference was approved by a Preparatory Committee in February 1963 which included the following main topics:

I. Expansion of international trade and its significance for economic development;

II. International commodity problems;

III. Trade in manufactures and semi-manufactures;

IV. Improvement of the invisible trade of developing countries;

V. Implications of regional economic groupings;

VI. Financing for an expansion of international trade;

VII. Institutional arrangements, methods and machinery to implement measures relating to to the expansion of international trade;

VIII. Final Act.

In addition, each of the main topics was subdivided into specific agenda items and sub-items, and the Secretary-General of the Conference was requested to arrange for suitable documentation accordingly. In response to that request a series of papers was prepared by the United Nations Secretariat and presented to the Preparatory Committee at its second session in May-June 1963.

It has been decided to combine the most important of these papers within the framework of Part I of *World Economic Survey, 1962.* Although these papers constitute interim reports which may have to be revised in the light of discussion in the Preparatory Committee, it is hoped that their publication will make them available to a wider audience and that this will help to stimulate broad public discussion of the issues that will come before the Conference.

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 1963 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 1962. Chapter 3 provides an account of recent changes in the centrally planned economies.

These studies have been prepared in the Department of Economic and Social Affairs by the Bureau of General Economic Research and Policies.

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., 1959/60

In certain tables, the symbol (..) has been used to indicate that recent information was lacking at the time of writing.

Use of a hyphen (-) between dates representing years, e.g., 1959-1961, 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]; AOS for Associated Overseas States [of the European Economic Community]; CICT for Commission on International Commodity Trade; DAC for Development Assistance Committee [of the Organisation for Economic Co-operation and Development]; DIF for Development Insurance Fund; ECAFE for Economic Commission for Asia and the Far East; EDF for European Development Fund [of the European Economic Community]; EEC for European Economic Community; EFTA for European Free Trade Association; 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; ICA for International Co-operation Agency [United States]; ICCICA for Interim Co-ordinating Committee for International Commodity Arrangements; IDA for International Development Association; IDB for Inter-American Development Bank; IFC for International Finance Corporation; IMF for International Monetary Fund; LAFTA for Latin America Free-trade Association; OAS for Organization of American States; OECD for Organisation for Economic Co-operation and Development; OEEC for Organisation for European Economic Co-operation; SITC for Standard International Trade Classification. "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.

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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Chapter 1

TRENDS IN WORLD TRADE AND THEIR SIGNIFICANCE FOR ECONOMIC DEVELOPMENT

Review of trends in world trade

The importance of foreign trade for economic development of the developing countries stems from the fact that in most of them export production and trade constitute a preponderant part of their total economic activity. The forces that shape the course of export trade thus automatically set up reverberations in the domestic economy. Experience has shown that even the mild dips or pauses in the pace of economic growth in the developed parts of the world have led to proportionally sharp curtailments in the export trade of the less developed countries and correspondingly in their national income or product.

Even in that small minority of the less developed countries where the share of exports in national product is not particularly large, the importance of favourable expansion in international trade remains crucial. This is because all newly developing countries are heavily dependent on imports of machinery, heavy equipment and other essential goods that are strategic to lifting the levels of productive investment for accelerated economic growth. True, in some countries industrialization has led to significant increases in the domestic supply of investment goods; but at the same time the demand for these products, too, has been expanding rapidly, with the result that the dependence on imported supplies has not diminished and in some cases has even risen.[1] Increased export earnings are thus clearly vital to pay for the expanding needs of imported supplies.

Unfortunately, recent developments on this score provide little ground for satisfaction; rather, if anything, they constitute a matter of serious concern for the world community. In recent years, the export trade of the under-developed countries has not fared at all well in comparison with the trade of the advanced countries. This conclusion emerges unmistakably whether one analyses the data on export volumes or on export prices or on the relative shares of various groups of countries in world trade.

In the nineteen fifties, the volume of exports from the less developed countries rose at an annual rate of 3.6 per cent per annum as against a rate of growth in exports from the developed private enterprise economies not far short of twice as large and an expansion in the export volume of the centrally planned economies almost three times as large (*see* table 1-1). This slow rate of growth is in marked contrast to the trends in trade in the nineteenth century when vigorous export trade often acted as the main spark of economic change in the developing countries—a change that not only encompassed the over-all rate of economic growth but also the increasing monetization of subsistence economies as well as their ability to absorb innovations and new ideas from abroad.[2]

Under the momentum generated by the new programmes or plans of economic development launched in the nineteen fifties, on the other hand, the annual

[1] *See* United Nations, *World Economic Survey, 1961* (Sales No.: 62.II.C.1), chapter 1.

[2] The point is further elaborated in the text below.

Table 1-1. World Trade, by Major Country Groups; Annual Averages 1950-1954 and 1955-1960 and Compound Rates of Growth between 1950 and 1960

(Billions of dollars)

Country group and period[a]	Exports		Imports	
	Value	Volume[b]	Value	Volume[b]
World				
1950-1954	75.6	74.1	75.6	74.1
1955-1960	107.2	107.2	107.2	107.2
Compound rate of growth		6.4(5.8)[c]		6.4(5.8)[c]
Developed countries				
1950-1954	47.0	46.5	48.0	47.0
1955-1960	69.6	69.6	68.1	68.1
Compound rate of growth		6.9[c]		6.9[c]
Centrally planned economies				
1950-1954	7.2	6.9[d]	6.9	6.7[d]
1955-1960	12.4	12.4[d]	12.2	12.2[d]
Compound rate of growth		10.7[c]		11.1[c]
Developing countries				
1950-1954	20.3	19.5	18.5	18.3
1955-1960	23.7	23.7	24.1	24.1
Compound rate of growth		3.6[c]		4.6[c]

Table 1-1 (*continued*)

Country group and period[a]	Exports		Imports	
	Value	Volume[b]	Value	Volume[b]
Unclassified trade[e]				
1950-1954	1.2	1.2	2.2	2.2
1955-1960	1.5	1.5	2.8	2.8

Source: Bureau of General Economic Research and Policies of the United Nations Secretariat, based on data from United Nations, *Yearbook of International Trade Statistics, 1959*, vol. I (Sales No.: 60.XVII.2, Vol. I) and *1960* (Sales No.: 61.XVII.9), *Statistical Yearbook, 1960* (Sales No.: 61.XVII.1) and *1961* (Sales No.: 62.XVII.1), *Monthly Bulletin of Statistics*, October 1952, June and July 1961, *Direction of International Trade*, Statistical Papers, Series T, a joint publication of the Statistical Office of the United Nations, the International Monetary Fund and the International Bank for Reconstruction and Development; Organisation for European Economic Co-operation, *Foreign Trade Statistical Bulletin*, series IV (Paris), 1956 and 1958; and from national sources.

[a] *Developed countries*: North America, western Europe, Australia, Japan, New Zealand and South Africa; *centrally planned economies*: eastern Europe, mainland China, Mongolian People's Republic, North Korea and North Viet-Nam; *developing countries*: rest of the world. The figures exclude: (i) special category exports of the United States and (ii) inter-trade of the Mongolian People's Republic, North Korea and North Viet-Nam and their trade with mainland China.

[b] In average 1955-1960 prices.

[c] The rate of growth (r) is calculated on the basis of the following formula:

$$(1 + r)^{10} = \frac{T_{60}}{T_{50}}$$

where T_{60} and T_{50} denote the volume of trade in 1960 and 1950, respectively. The figures in parentheses refer to the volume of trade, excluding that of the centrally planned economies.

[d] Estimates based on national sources; figures may be subject to a wide range of error.

[e] The figures include unclassified trade of some developing countries (mainly dependent territories in Central and South America) as well as errors and omissions.

increase in the volume of imports of the developing countries—4.6 per cent—was significantly in excess of the 3.6 per cent annual expansion in the volume of exports. In part, of course, this reflected the increased availability of foreign loans and grants for accelerating their rate of economic advance. But it is also indicative of the growing imbalance in their external accounts which is increasingly setting a limit to their plans for economic expansion.

The lagging volume of exports is but one aspect of the critical problem encountered by the less developed countries. In recent years, the external imbalance has been considerably accentuated by a steady deterioration in the terms at which their exports are exchanged for imports.[3] As is evident from the data assembled in table 1-2, the average price of goods exported by these countries in 1960 was barely higher than the level reached a decade earlier, while the average price of their imports was significantly higher, with the result that the terms of trade had declined by 9 per cent. As a notional exercise, it is interesting to note that had the terms of trade of the less developed countries been stabilized at their 1950 level the aggregate purchasing power of their exports in terms of imports in 1960 would have been greater to the extent of $2.3 billion.

[3] For simplicity, the role of invisibles in external trade has been ignored in the present argument. Actually, as is shown in the next section of this chapter, the earnings from invisibles, too, have tended to lag and hence aggravate the imbalance.

Table 1-2. Unit Values of Exports and Imports, by Country Group, 1950-1960[a]

(1959 = 100)

Country group and item	1950	1951	1952	1953	1954	1955	1956	1957	1958	1959	1960
Developed countries											
Unit value of exports	85.9	103.0	104.0	100.0	98.0	98.0	101.0	104.0	101.0	100.0	101.0
Unit value of imports	90.7	114.4	112.4	104.1	103.1	104.1	106.2	110.3	103.1	100.0	101.0
Terms of trade	94.7	90.0	92.5	96.1	95.1	94.1	95.1	94.3	98.0	100.0	100.0
Developing countries											
Unit value of exports	100.0	125.8	114.4	106.2	108.2	108.2	107.2	107.2	103.1	100.0	101.0
Unit value of imports	91.8	108.2	110.2	103.1	99.0	100.0	102.0	105.1	102.0	100.0	101.0
Terms of trade	108.9	116.3	103.8	103.0	109.3	108.2	105.1	102.0	101.1	100.0	100.0

Source: United Nations, *Monthly Bulletin of Statistics*, January and April 1963.

[a] Data are shown with 1959 as 100 since this year serves as the base for all subsequent calculations of projected estimates. Terms of trade refer to the ratio of unit value of exports to unit value of imports.

Together, the lagging increase in their export volume and the deterioration in their terms of trade have led to a substantial decline in the share of the under-developed countries in total world trade. As is borne out by the data in table 1-3, the under-developed countries accounted for somewhat less than one-third of total world trade in 1950; but by 1960 their share had shrunk to one-fifth. During the same period, the industrially developed countries increased their already large share in the total from three-fifths to two-thirds. Significant increases were also recorded by the group of centrally planned economies; the share of these economies in the total rose from 8 per cent to 12 per cent.

Equally important are some of the underlying trends regarding regional direction of trade. Perhaps the most significant fact is that while the share of exports from the under-developed countries declined in the totals of each of the groups shown in table 1-3, including the total for intra-trade of the under-developed countries themselves, the industrially developed countries as well as the centrally planned economies have increased their respective intra-regional trade quite sharply.

Table 1-3. Distribution of World Trade, by Country Group, 1950 and 1960[a]

(Percentage of world trade in current prices)

Exporting country group	Importing country group: Total world	Developed countries	Centrally planned economies	Developing countries	Unclassified trade
Total world					
1950	100.0	100.0	100.0	100.0	100.0
1960	100.0	100.0	100.0	100.0	100.0
Developed countries					
1950	59.8	62.6	21.2	68.8	34.6
1960	66.0	72.1	20.9	75.3	55.9
Centrally planned economies					
1950	8.4	3.4	66.5	2.7	4.1
1960	12.4	3.6	71.1	4.7	5.3
Developing countries					
1950	30.0	32.2	12.3	27.3	52.5
1960	20.4	22.8	8.0	19.0	34.5
Unclassified trade					
1950	1.7	1.8	—	1.2	8.8
1960	1.3	1.5	—	1.0	4.3

Source: See table 1-1.

[a] Excluding special category exports of the United States.

The reasons for the unfavourable trends in the external trade of the under-developed countries are rooted in the basic structure of this trade itself. Thus, primary products comprising foodstuffs, agricultural raw materials, ores and fuel account for well over four-fifths of the total exports of the under-developed countries. For the industrially developed countries, on the other hand, over two-thirds of the foreign exchange earnings are contributed by exports of manufactured goods. Only for the group of centrally planned economies are the exports of primary products roughly of the same order of magnitude as those of manufactured goods (*see* table 1-4). The trading pattern of the under-developed countries is such that they export in the main primary products and import in return largely manufactured goods. For no other group does the ex-

Table 1-4. Composition of World Trade and of Trade of Major Groups of Countries, 1959[a]

Country group and item[b]	Exports: Percentage of world total exports	Exports: Percentage of group's total exports	Imports: Percentage of world total imports	Imports: Percentage of group's total imports
World				
Total	100.0	100.0	100.0	100.0
Foodstuffs	18.9	18.9	18.9	18.9
Agricultural raw materials and ores	16.7	16.7	16.7	16.7
Fuels	10.3	10.3	10.3	10.3
Manufactures, excluding machinery	32.2	32.2	32.2	32.2
Base metals	8.2	8.2	8.2	8.2
Machinery	20.8	20.8	20.8	20.8
Other	1.0	1.0	1.0	1.0
Developed countries				
Total	64.4	100.0	63.8	100.0
Foodstuffs	9.8	15.2	13.3	20.9
Agricultural raw materials and ores	8.3	12.9	12.5	19.6
Fuels	2.6	4.0	6.8	10.7
Manufactures, excluding machinery	25.6	39.8	19.8	31.0

Table 1-4 (*continued*)

Country group and item[b]	Exports		Imports	
	Percentage of world total exports	Percentage of group's total exports	Percentage of world total imports	Percentage of group's total imports
Developed countries (continued)				
Base metals	6.3	9.7	5.5	8.5
Machinery	17.5	27.2	10.8	17.0
Other	0.7	1.0	0.5	0.8
Centrally planned economies				
Total	12.9	100.0	13.0	100.0
Foodstuffs	2.2	16.8	1.8	13.6
Agricultural raw materials and ores	2.1	16.4	2.6	19.8
Fuels	1.4	10.6	1.0	7.4
Manufactures, excluding machinery	3.9	30.2	4.1	31.7
Base metals	0.9	7.6	1.3	10.2
Machinery	3.2	24.6	3.4	26.3
Other	0.2	1.4	0.1	1.1
Developing countries				
Total	22.7	100.0	23.2	100.0
Foodstuffs	7.0	30.7	3.8	16.5
Agricultural raw materials and ores	6.3	27.9	1.7	7.2
Fuels	6.4	28.0	2.5	10.9
Manufactures, excluding machinery	2.8	12.1	8.3	35.8
Base metals	1.0	4.5	1.5	6.4
Machinery	0.1	0.6	6.5	28.2
Other	0.2	0.7	0.3	1.4

Source: Bureau of General Economic Research and Policies of the United Nations Secretariat, based on data from United Nations, *Monthly Bulletin of Statistics*, March and April 1962, and *Commodity Trade Statistics*, Statistical Papers, Series D.

[a] Excluding (i) special category trade of the United States and (ii) inter-trade of the Mongolian People's Republic, North Viet-Nam and North Korea and their trade with mainland China.

[b] Foodstuffs refer to sections 0 and 1 of the Standard International Trade Classification (SITC); agricultural raw materials and ores to sections 2 and 4; fuels to section 3; manufactures excluding machinery to sections 5, 6, 8 and item 732.01 (passenger cars) of section 7; machinery to section 7, except item 732.01; "other" to items not elsewhere specified.

change of exports for imports rest on such an uneven keel; a good part of the international trade in other groups represents exchange of manufactured goods for manufactured goods.

The trading pattern of the under-developed countries has an additional feature. Not only do these countries exchange exports of primary products for imports of manufactured goods, but their trading pattern is closely linked with the structure of trade of the industrially developed countries. As is evident from the data assembled in table 1-5, throughout the nineteen fifties the overwhelming bulk of the exports from the under-

Table 1-5. Developing Countries: Commodity Exports and Imports, 1951-1960[a]

(*Billions of dollars at 1959 prices; f.o.b.*)

Item	1951	1952	1953	1954	1955	1956	1957	1958	1959	1960
Exports to the rest of the world	14.0	13.5	14.9	15.2	16.3	17.6	17.7	18.3	20.0	20.9
To centrally planned economies	0.5	0.4	0.3	0.4	0.5	0.5	0.7	0.8	1.0	1.1
To developed countries	13.2	12.8	14.2	14.6	15.6	16.8	16.7	17.1	18.8	19.4
Primary products	...	...	12.6	13.0	14.1	14.7	14.3	15.5	16.5	17.3
Foodstuffs	...	...	5.4	5.4	5.6	5.9	5.9	6.2	6.2	6.3
Agricultural raw materials and ores	...	...	4.8	4.6	5.1	5.2	5.0	4.9	5.4	5.6
Fuels	...	...	2.5	3.1	3.4	3.6	3.4	4.4	4.8	5.3
Manufactured goods	...	...	1.7	1.8	2.1	2.2	2.0	1.8	2.2	2.5
Imports from the rest of the world	14.5	14.2	14.2	15.8	16.7	18.7	20.5	20.4	20.3	22.1
Primary products	...	...	3.3	3.3	3.3	3.8	4.2	4.2	4.3	5.0
Foodstuffs	...	...	2.3	1.9	2.1	2.5	2.8	2.8	2.9	3.3
Agricultural raw materials and ores	...	...	0.5	0.7	0.7	0.8	0.8	0.8	0.9	1.1
Fuels	...	...	0.6	0.6	0.6	0.6	0.6	0.7	0.6	0.7
Manufactures	...	...	11.3	12.5	13.3	14.8	16.8	15.9	15.6	16.9
Chemicals	...	...	1.1	1.4	1.5	1.6	1.8	1.8	1.9	2.1
Machinery and equipment	...	...	5.0	5.2	5.9	6.7	7.8	7.5	7.2	7.8
Other manufactures	...	...	5.1	5.9	6.0	6.6	7.2	6.6	6.5	7.0

Source: Bureau of General Economic Research and Policies of the United Nations Secretariat, based on data from United Nations, *Yearbook of International Trade Statistics, Monthly Bulletin of Statistics* and *Direction of International Trade.*

[a] Components do not always add up to totals due to errors and omissions and to rounding. For commodity coverage of items, *see* footnote *b* to table 1-4.

developed countries has gone to the industrially developed countries. Although the volume of exports to the centrally planned countries has more than doubled—a rate of increase significantly higher than that registered by exports to the industrially developed countries—the share of such exports in the total exports of the under-developed countries is still quite small. This provides a clue to the nature of the forces which have caused the exports of the less developed countries to lag behind exports from other countries.

In the nineteenth century, which saw the application on a large scale of the technological advances of the industrial revolution, rapid rates of industrialization and population increase, first in western Europe and later in North America, called for rapid increases in the exports of primary products from the less developed parts of the world. This would not have been possible had not improvements in the means of transport opened up a whole new range of overseas markets for primary products. This source of buoyancy, however, no longer exists in the present-day world. As is discussed at some length in chapter 2, and also in other United Nations publications,[4] the high levels of per capita income and consumption in the industrially advanced countries have transformed the whole structure of their demand for primary products. The demand for cereals and other foodstuffs has historically lagged behind the rise in incomes and the consumption of manufactured goods and of the products of service industries. There have, moreover, been significant increases in the domestic output of agricultural products in the developed countries which have added to the gravity of the problem facing the under-developed countries. Further, technological discoveries have led to spectacular growth in production of synthetic substitutes for several agricultural raw materials. It is under the combined weight of all these forces that the volume of exports from the under-developed countries has been expanding only slowly, that the prices of these exports have been deteriorating in relation to the prices of manufactured goods, and that the share of the under-developed countries in total world exports has been declining.

It is in this context that the implications of the goals set for the United Nations Development Decade have to be assessed. The General Assembly has called for an increase in the annual rate of growth of the developing countries to at least 5 per cent at the end of the decade. The following section presents a preliminary and tentative attempt to investigate the trade needs of the developing countries for meeting this target.

[4] *See* in particular United Nations, *World Economic Survey, 1958* (Sales No.: 59.II.C.1), chapter 1.

Trade needs of developing countries for their accelerated economic growth

An exercise that seeks to throw light on the future trade needs of the developing countries must by its very nature involve a series of highly tentative "projections". In this respect, the projections contained in the present section are no exception; they are provisional and subject to revision in the light of more detailed work to be undertaken as part of the work programme of the Economic Projections and Programming Centre of the Bureau of General Economic Research and Policies. It is also worth noting, as has already been stated in another United Nations document, that projections are not the same as outright forecasts of the future; they do not amount to prophecies. All projections inevitably include a large element of judgement and—also inevitably—all are subject to some margin of error.[5] The limitations inherent in projections acquire an even greater significance when the problem concerns the less developed countries. In the first place, there are innumerable shortcomings in the data currently available.[6] Furthermore, in the developing countries, where every day brings new activity on the part of governments to speed the pace of economic advance and to diversify the structure of the economy, there are bound to be policy changes with far-reaching effects on the process of development. And, inevitably, there are bound to be policy changes in other parts of the world which, through their impact on world trade and payments, will exercise considerable influence on the economic expansion of the less developed countries. It is clear, therefore, that the results of the calculations spelled out below at the request of the Preparatory Committee of the United Nations Conference on Trade and Development can be no more than of an illustrative nature.

Nevertheless, when used with proper caution, such an exercise can be extremely valuable. Within the frame of certain assumptions, it can illuminate the implications for the future course of trade of certain postulated growth rates. By comparing the prospects for exports and other receipts with the requirements for imports and other payments, it greatly enhances the understanding of the magnitude of the challenge for national and international policy implicit in the targets that have been set by the General Assembly for the Development Decade.

The principal elements of the exercise must obviously come from the experience of the past. As a first step, therefore, certain relations are derived from the available data relating to the nineteen fifties.

The total gross domestic product of the less developed countries, measured in constant 1959 prices, is estimated to have increased from $121 billion in 1950 to about $180 billion in 1959, or at the annually compounded rate of 4.65 per cent. During the same period and at the same constant prices, gross domestic fixed capital formation increased from less than $17 billion to over $28 billion.

The annual rate of growth of export quantum from the under-developed countries to the industrially advanced countries implicit in the data shown in table 1-5 was about the same as the annual rate of increase of the gross domestic product (3.7 per cent) of the latter group of countries. The responsiveness of individual commodity groups to changes in demand, however, varied widely in the nineteen fifties. The "income

[5] United Nations, "Evaluation of Long-term Economic Projections" (mimeographed document E/3379).

[6] It is, of course, true that significant achievements have been made in the past few years in the collection of data at the national level and that international organizations have contributed a good deal towards improving the comparability of concepts and the usability of statistics. Nevertheless, there are still many shortcomings in available data and many gaps which remain to be filled.

elasticity"[7] of the demand for imports from the under-developed countries into the industrially advanced countries—that is, the responsiveness of imports to changes in aggregate product—is summarized in the following table:

Income elasticity of imports of the industrially advanced countries from the developing countries[a]

Commodity group	*Income elasticity*
Foodstuffs (SITC groups 0 and 1)	0.76
Agricultural raw materials and ores (SITC groups 2 and 4)	0.60
Fuels (SITC group 3)	2.87[b]
Manufactured goods (SITC groups 5 to 8)	1.24

[a] The estimates were derived from regression of gross domestic product of the industrially developed countries on imports of each commodity group from the developing countries. The sample covers the period 1953-1960.

[b] The unusually high elasticity reflects to some extent the occurrence of non-economic disturbances. The United Nations Economic Commission for Europe has estimated in *Economic Survey of Europe in 1960* (Sales No.: 61.II.E.1) that the imports of fuels by western Europe, North America and Japan would grow at 4.3 per cent per annum between 1959 and 1980, as against an assumed growth rate of 3.1 per cent per annum of their gross national product, resulting in income elasticity of fuel imports of 1.40. Calculations discussed in subsequent paragraphs have been based on the figure of 1.40 rather than 2.87.

In the nineteen fifties, on the average, exports from the under-developed countries to the centrally planned economies amounted to 7.3 per cent of the total imports of these economies. As an approximation, for the purposes of the present hypothetical exercise, this level is assumed to remain unchanged at the end of the nineteen sixties.

Correspondingly, for imports into the under-developed countries, the relationship with their own gross domestic product is summarized in the following table:[8]

Income elasticity of imports into the developing countries from the rest of the world

Commodity group	*Income elasticity*
Foodstuffs (SITC groups 0 and 1)	1.49
Agricultural raw materials and ores (SITC groups 2 and 4)	1.65
Fuels (SITC group 3)	0.35
Chemicals (SITC group 5)	1.85
Machinery and equipment (SITC group 7, excluding 732.01 (passenger cars)	1.16[a]
Other manufactures (SITC groups 8 and 732.01)	0.82

[a] The figure denotes the percentage change in import requirements of capital goods with respect to a one per cent change in the level of gross domestic fixed capital formation.

An attempt can now be made to link the past relationships with the target of 5 per cent annual increase in gross domestic product of the developing countries at the end of the United Nations Development Decade. However tentative the result must necessarily be, it may help to assess the broad implications of the goal established by the General Assembly.

The principal results of the illustrative exercise are shown in table 1-6. To start with, it is assumed that in

[7] The term "income elasticity" denotes the percentage change of imports induced by a one per cent increase in gross domestic product.

[8] The pattern of imports into the under-developed countries has been strongly influenced by the growth of import-substituting industries. An important reason for the differences in income elasticities of individual commodity groups, in fact, stems from this factor. For a discussion of the role of import-substitution, *see* United Nations, *World Economic Survey, 1961*, chapter 1.

Table 1-6. Developing Countries: Hypothetical Projections of and Illustrative Requirements for Adjustments in the Balance of Payments Emerging from an Accelerated Rate of Growth of Output[a]

(Billions of dollars in 1959 prices and exchange rates)

Item	*1959 (observed) (I)*	*1970 (hypothetical) (II)*	*Remarks on derivation of figures in column II*
1. Gross domestic product	180	304	Assumed to grow at the historical (1950-1959) rate of 4.65 per cent per annum during 1960-1965 and to accelerate thereafter by a constant fraction each year so as to reach the United Nations Development Decade target of 5 per cent per annum in 1970.
2. Gross domestic fixed capital formation	28	52	Assumed to grow in the same relation to gross domestic product as in the period 1950-1959.
3. Commodity imports	21	41	Hypothetical level of imports unadjusted for structural changes and policy measures; calculated on the basis of the income elasticities shown in the second text table above.
a. Primary	4	9	
b. Manufactures	17	32	
4. Commodity exports	20	29	Calculated on the basis of income elasticities shown in the first text table above; the gross domestic product of the developed countries was assumed to increase at the same rate as in the period 1950-1960 (3.7 per cent per annum).
a. To developed countries:			
Primary	17	23	
Manufactures	2	4	
b. To centrally planned economies	1	2	Calculated by using as indicator the target rate of trade turnover of the Soviet Union.
5. Payments for investment income and other services (net)	4	8	Assumed to be related to total exports and imports.
6. Gap on current account	5	20	Rows 3 and 5 minus row 4.
7. Inflow of long-term capital and official donations (net)	5[b]	9	Hypothetical level derived by extrapolating past trends.
8. Initial gap in current and long-term capital account	—	11	Row 6 minus row 7.

Table 1-6 (*continued*)

Item	1959 (observed) (I)	1970 (hypothetical) (II)	Remarks on derivation of figures in column II
9. Illustrative adjustments through national and international policy measures, assumed and envisaged		7	
a. Decrease in commodity imports through maintenance of 1959 import ratio		3	Maintenance of the 1959 ratio of imports to gross domestic product, implying decrease in the historical elasticity of import demand for foodstuffs and manufactured goods.
b. Increase in exports resulting from income acceleration in developed countries		2	Induced by an assumed acceleration of the rate of growth of output in the developed countries so as to reach the target of 4.2 per cent per annum, and corresponding expansion of exportables in the developing countries.
c. Assumed decrease in net payments for investment income and other services		1	Assumed improvements in net income from invisibles as discussed in the text (page 9).
d. Assumed increase in inflow of net long-term capital and official donations		1	Additional 10 per cent increase in the level shown in row 7 towards fulfilling the General Assembly target level of capital inflow of one per cent of gross domestic product of the developing countries.
10. Residual gap in the balance of payments remaining to be covered through national and international policy measures additional to those in row 9 [row 8 minus row 9]		4	See text (page 9).

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

[a] Country coverage in this table differs slightly from preceding tables owing to limitations of data. Figures have been rounded to nearest integer.

[b] Including short-term capital.

the first half of the nineteen sixties the gross domestic product of the developing countries would increase at the same annual rate as in the nineteen fifties—namely, 4.65 per cent—but thereafter it would accelerate by a constant fraction every year so as to reach the United Nations Development Decade target of 5 per cent in 1970. The hypothetical level of gross domestic product in 1970, in other words, would be more than two-thirds larger than the actual level in 1959. It is further assumed that, in order to reach the target rate of growth, gross domestic fixed capital formation would increase at a rate implicit in the relationship observed in the nineteen fifties between gross domestic product and fixed investment. Forces would, of course, be at work which would tend to change the relationship between output and investment in individual countries in different directions; but at the level of aggregation of the present illustrative exercise, it is not unreasonable to assume that on balance these individual forces would cancel out and that for the developing countries as a whole the relationship would remain unchanged. Given this postulate, the level of gross domestic fixed capital formation would have to increase from less than 16 per cent in 1959 to over 17 per cent in 1970.

The impact of the hypothetical increases in output and investment of the developing countries on their imports can now be worked out on the basis of income elasticities shown in the text table above. The rapid growth of investment would be reflected directly in requirements of imported capital goods. The high income elasticities for other commodity groups indicate that imports of these groups, too, would rise substantially. In other words, total import requirements would increase at a rate significantly higher than that of total output. Altogether, the ratio of commodity imports to gross domestic product, if all the relations turn out to be as assumed, would increase from rather less than 12 per cent to well above 13 per cent.

The hypothetical level of exports to the industrially developed countries in 1970 has been calculated by relating the income elasticities summarized in the first text table above with the assumption that the gross domestic product of these countries would continue to increase at the same rate as in the nineteen fifties, that is, 3.7 per cent per annum. Given the differences in the magnitudes involved in the two sets of assumptions about imports and exports, the latter would obviously register a moderate increase compared with the sharp rise in the former. Moreover, since only fuels enjoy a relatively high elasticity of demand, the major gains from the expansion of trade would accrue to a handful of petroleum producing countries; trade in other primary commodities would show signs of relative stagnation.

The hypothetical level of exports to the centrally planned economies has been calculated on the assump-

tion that the share of the less developed countries in the total import trade of these economies would be the same as in the nineteen fifties, namely, 7.3 per cent. In order to estimate the 1970 level of total trade of the centrally planned economies, the official target of 7.2 per cent annual compound rate of growth for the Union of Soviet Socialist Republics has been taken as an indicator of the growth of exports of the group as a whole.[9] The rationale for applying this rate to the whole group stems from the fact that in the nineteen fifties the rate of growth of exports of the Soviet Union was equal to the average of that of all other centrally planned economies. Although on these assumptions exports to the centrally planned economies would grow at a rapid rate, their share in total exports from the developing countries in 1970 would still be rather small. Thus, the hypothetical increase in exports to the industrially developed countries and the centrally planned economies, taken together, would not even be half as large as the hypothetical increase in total imports. The merchandise trade deficit would obviously be the largest element in the growing external imbalance; it is estimated in table 1-6 to amount to $12 billion.

Another factor contributing to the external imbalance would be the increase in net payments for investment income and for other services. The hypothetical levels of these two categories in 1970 have been estimated by relating them to the expansion of total exports and imports, respectively. As shown in table 1-6, net payments for investment income and other services would double by 1970. The initial gap on current account, including merchandise trade and services, is estimated in the table to equal $20 billion by 1970.

In assessing the magnitude of external imbalance, however, account must also be taken of the increase in the net inflow of long-term capital and official donations that would take place if the past trends were to continue. For calculating the hypothetical level of long-term private capital, it is assumed that the 1956-1959 average in relation to the level of exports of fuels and base metals to the industrially advanced countries would remain unchanged in 1970. For official donations, the hypothetical 1970 estimates are derived by linear projection of the straight line connecting the mid-points of their 1951-1955 and 1956-1959 levels. Finally, official loans are assumed to increase at the same percentage rate as in the past. Under these assumptions, the net inflow of foreign funds in 1970 works out to be $9 billion as against $5 billion in 1959. It should be noted, however, that the net inflow was already $6 billion in 1960 and that in 1961, according to the preliminary estimates, it would be close to $7 billion.[10] Viewed against these facts, the hypothetical increase by 1970 does not appear large.[11]

Putting the aforementioned results of the illustrative exercise together, it can be seen that the hypothetical initial gap on current and long-term capital account which would require to be covered through policy measures in the developing countries as well as in the rest of the world would amount to $11 billion in 1970.[12]

At first glance, the magnitude of the hypothetical balance to be covered by policy measures—$11 billion—may look too large to overcome by realistic policy measures. It would not be quite realistic, however, to pass judgement on the size of this estimate or any other estimate for 1970 through the economic yardsticks of 1959. In a dynamic world, where countries are striving to speed the rate of their economic advance, all projected figures for 1970 are bound to look large in relation to the observed levels for 1959. What is required is to assess the magnitude of the hypothetical balance in relation to the world economy as it will be in 1970 and not as it was in 1959. As a percentage of the relevant variables of the expanded world economy in 1970, this amount is by no means too large to cope with. And given international good will and co-operation, it should be possible for the developing countries and the rest of the world to devise appropriate measures for meeting the challenge represented by such a figure.

A study of the appropriate policy measures lies outside the scope of this introductory paper. The aggregative basis on which the exercise has been carried out, while highlighting the order of magnitude of the deficit in external accounts which recent trends portend, is inadequate for purposes of considering the effects of policy measures: these require detailed examination within the framework of the development plans of individual countries.[13] The most that can be done at the level of aggregation employed in this chapter is to postulate certain simple changes in the underlying conditions and assess their effects on the assumption that all other relationships hold constant. Thus, for illustrative purposes, some tentative examples of the possible ways of reducing the external imbalance so as to sustain a higher rate of growth in the developing countries are worked out in row 9 of table 1-6. These examples, like the calculations shown in rows 1 to 8, are entirely hypothetical; they cannot and do not purport to indicate the feasibility or desirability of the suggested measures. How much will be accomplished in reality—through import substitution or export promotion, for example—is a question which lies entirely in the domain of policy decisions and events at the national and international level.

The first illustrative adjustment shown in table 1-6 concerns the sphere of domestic policy measures in the developing countries; it indicates that one possible approach for reducing the external imbalance might be to seek still further economies through import substitution. While the range of feasible import substitution cannot be estimated with any degree of accuracy, it is interesting to see what the saving in foreign exchange

[9] *See* United Nations, *Economic Survey of Europe in 1961: Part I, The European Economy in 1961*, chapter II, page 46.

[10] *See* United Nations, *International Flow of Long-term Capital and Official Donations, 1959-1961* (Sales No.: 63.II.D.2) for the items included in the United Nations estimates of the net flow of funds to the under-developed countries.

[11] Implicit in the data shown in table 1-6 is the assumption that the ratio of domestic saving to gross domestic product in the developing countries would rise. This is in line with the officially stated goals of these countries.

[12] It needs to be stressed that this hypothetical figure reflects projections into the future of trends or economic relationships observed in the past. Such projections do not take into account the influence of random factors which may be of considerable importance in any given short period. This implies that the hypothetical balance calculated for 1970 should be viewed as if it represents an average for several years where the impact of random factors has been smoothed out.

[13] The Economic Projections and Programming Centre of the United Nations Secretariat is preparing a long-run work programme covering the work of Headquarters and the regional economic commission secretariats in co-operation with the development institutes and the specialized agencies which will attempt—*inter alia*—to provide more specific answers to this type of question.

requirements would be if the ratio of imports to gross domestic product in the developing countries were to remain the same as in the last part of the nineteen fifties. Under the assumptions made, there could be a reduction in import requirements for 1970 of the order of $3 billion.[14]

Another possibility of improving the balance might emerge through improvements in the international environment. In row 9 (*b*) of table 1-6, it is assumed that the growth rate of the industrially developed countries, instead of increasing at the past rate of 3.7 per cent per annum, would rise at the target figure of 4.2 per cent per annum.[15] The import demand in the industrially developed countries arising from this increment, other relationships remaining unchanged, would contribute an additional $2 billion to the foreign exchange receipts of the developing countries in 1970.

Another possible way of assisting the developing countries in their development efforts is to seek an improvement in their terms of trade. While quantitative projections of the long-run trends in the terms of trade are beyond the scope of the present discussion, attention should be drawn to the fact that the implicit assumption made here, namely, that the relative export-import prices will maintain their 1959 level, in itself constitutes a major policy measure in view of the fact that the terms of trade have been moving steadily against the developing countries since the middle of the nineteen fifties.

Yet another possibility of reducing the external deficit would be through a combination of national and international measures that affect the balance on services account. For example, with the passage of time, as the less developed countries make advances in commerce and transport, they might be expected to place increasing reliance on their own merchant fleet and merchandise insurance companies, thus resulting in some economies in external accounts. A concerted drive for enlarging the flow of tourists from abroad might also add to the supply of foreign exchange. The increased emphasis on low-interest or interest-free international loans for economic development might result in a shift in the composition of the international flow of funds, with favourable impact on the external balance of the developing countries. It is of course difficult to figure the net favourable result from these and other such factors. For illustrative purposes, the hypothetical exercise has assumed a notional figure of $1 billion on this account.

It might also be argued that there would be further expansion in the international flow of capital to the developing countries. The General Assembly has called for an increase in such flow so as to reach as soon as possible approximately one per cent of the combined national incomes of the economically advanced countries. If, as a result of the efforts stimulated by the General Assembly resolution, there is (say) an additional 10 per cent increase in the hypothetical level of the net inflow of long-term capital and official donations derived by extrapolating past trends, this would add $1 billion to the supply of foreign exchange available to the developing countries.

Altogether, these illustrative adjustments would contribute $7 billion. There would, however, still be a hypothetical gap in the balance of payments of the developing countries amounting to $4 billion. In the expanded world economy of 1970, it should not be beyond wise economic statesmanship to cover such a gap through additional national and international policy measures. At the national level, the developing countries might, for instance, be expected to intensify their export-promoting and import-substituting activities. At the international level, a wide range of policy measures are under discussion for achieving high and stable levels of international trade; such programmes of trade expansion occupy a prominent place on the agenda of the forthcoming United Nations Conference on Trade and Development. Emphasis has been placed on measures for promoting the consumption in the advanced countries of agricultural and other primary products exported by the less developed countries. Measures are also being sought for reducing quantitative and tariff barriers on such exports. Considerable attention has also been given to measures for encouraging exports of manufactures and semi-manufactures from the developing countries.[16] Such measures, if adopted and implemented with vigour, should lead to a further improvement in the international economic environment and close the gap in the balance of payments that might otherwise be associated with an acceleration of the rate of economic growth of the developing countries.

This preliminary analysis of the trade needs of the developing countries suggests that in order to meet the target laid down for the United Nations Development Decade certain changes in the past trends of strategic variables are called for. The discussion has briefly touched upon the implications of some of these changes. If the emerging problems are to be successfully tackled, their probable magnitude needs to be assessed in as realistic a fashion as possible. This can be done only on the basis of plausible hypotheses concerning the many variables involved as well as their interrelations. While no single projection of this nature may have precise predictive value, not to make any projections would be to forgo the use of a major tool for helping policy makers keep ahead of events.

[14] It should be noted that even the rise in the ratio of imports to gross domestic product implicit in the estimated import requirements shown in row 3 of table 1-6 already allows for a considerable measure of import substitution. This is because import requirements are geared to the more dynamic sectors of the economy whose rate of growth is very much above the average for the gross domestic product as a whole. Thus, the maintenance of the ratio of imports to an accelerating gross domestic product would involve a still further increase in the degree of import substitution.

[15] This target has been set by members of the Organisation for Economic Co-operation and Development.

[16] For a discussion of these policies, *see* chapters 2 and 3.

Chapter 2

INTERNATIONAL COMMODITY PROBLEMS

Long-term trends and prospects for primary commodity producers

POST-WAR EXPORT TRENDS: THE LAG IN PRIMARY COMMODITY TRADE[1]

The production of primary commodities is an important activity in all countries, but in a large number of countries it takes on added significance because of the predominant role that the commodities play in exports. It is with these primary commodity exporters that this chapter deals. And it is on the commodities that are of major importance in world trade or major earners of foreign currency for the pimary exporting regions that attention is focused.

The primary exporting regions comprise Latin America, Africa, Asia (excluding Japan and the centrally planned countries) and Oceania.[2] These regions accounted for about 30 per cent of total world exports[3] in the years immediately before the Second World War and for rather more than that in the early post-war years. During the nineteen fifties, however, their trade failed to keep pace with the growth registered by the industrial and centrally planned countries. World trade (measured at current prices converted into United States dollars at official rates) more or less doubled between 1948 and 1959 but the value of exports from the primary exporting regions rose by only about 50 per cent. The proportion of world exports contributed by the primary exporting regions dropped from about a third in 1950-1952 to less than a fourth in 1960-1962.

The lag in the exports of the primary exporting regions was in part a matter of the volume of goods shipped. Between 1950-1952 and 1960-1962 the quantum of exports increased by over 80 per cent in the case of the industrial countries, but by only about 50 per cent in the case of the primary exporting regions. But it was also a matter of price. The unit value of exports from the industrial countries rose about 5 per cent in that interval, the unit value of exports from the primary exporting regions declined by over 15 per cent.

This sharp contrast in export performance during the past decade is in large measure a reflection of differences in composition: during the nineteen fifties the proportion of exports consisting of primary commodities was less than a third in the case of the industrial countries, but over 90 per cent in the case of the primary exporting regions. And it was for primary products that demand generally lagged and prices declined.

In 1960-1962 world exports of manufactured goods (excluding those of the centrally planned countries) were about three times the pre-war (1938) level, whereas the volume of food and raw materials entering international trade was barely two-thirds higher. This contrast is reflected in the growth in exports from the industrial regions on the one hand and from the primary exporting regions on the other (*see* chart 2-1).

In the early post-war period the volume of exports from the primary exporting regions kept pace more or less with the expansion in total trade in food and raw materials, but in recent years—especially since the mid-nineteen fifties—it has tended to fall behind even this relatively slow-moving aggregate.

This lag has occurred in spite of the fact that included in the exports of the primary exporting regions is the bulk of one of the fastest growing of all the major trade components, namely, petroleum. Thus, even within many of the categories of primary products themselves, the exports of the primary exporting regions have increased less rapidly than those from other regions.

THE NATURE OF THE LAG

In order to assess the significance of the relative slowness that has characterized the growth in exports from the primary exporting regions in the post-war period, it is necessary to examine the three principal aspects of this trade:

(i) Trends in its principal commodity components;
(ii) Trends in its principal constituent regional flows, and
(iii) Relative price movements.

Such an examination will help to pinpoint the problems and make clearer the significance of past developments for the future course of trade and their implications for policy requirements. The scene will thus be set for a discussion of policy problems. In the sections that follow these have been divided into two broad areas—first, the expansion of trade in primary commodities imported into the industrial countries and into the developing countries, and second, the stabilization of primary commodity markets and of export earnings.

Trends in the major commodity components of the trade of the primary exporting regions

In recent years the exports of the primary exporting regions have been fairly equally divided among three

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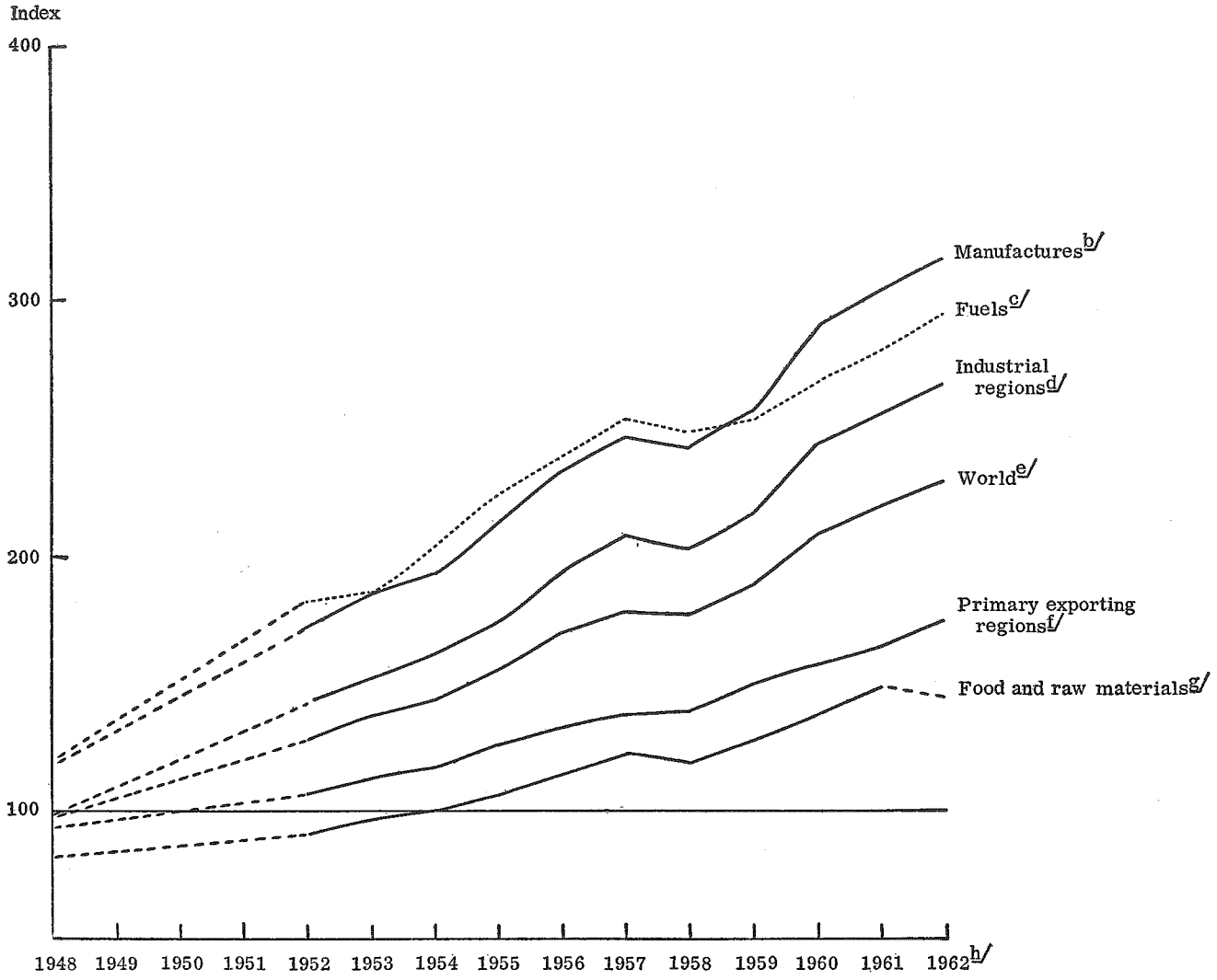
[1] This introductory section provides, in very summary form, the quantitative background to the analysis of primary commodity trade trends that follows. The salient developments in the world commodity situation in the post-war period are examined in some detail in United Nations, *Commodity Survey, 1962* (Sales No.: 63.II.D.3). Those aspects of recent trends which are of particular concern to the developing countries are discussed in chapter 1 of the present report.

[2] The primary exporting regions thus consist of the "developing countries" as defined in chapter 1, plus Australia, New Zealand and South Africa. In *World Economic Survey, 1962, II. Current Economic Developments* (Sales No.: 63.II.C.2), Greece, Ireland, Portugal, Spain and Turkey are also included as primary exporting countries; their exclusion here is entirely a matter of statistical convenience.

[3] "World exports" and "world trade" here exclude trade among the centrally planned countries of Asia.

Chart 2-1. World Trade: Trends in the Quantum of Exports, by Major Region and Major Commodity Group, 1948-1962[a]

(Indices, 1938 = 100)



Source: Bureau of General Economic Research and Policies of the United Nations Secretariat, based on United Nations, *Statistical Yearbook, Monthly Bulletin of Statistics* and *Commodity Survey, 1962.*

[a] Between 1938 and 1951 exports are valued at 1948 prices; between 1951 and 1958, at 1953 prices, and between 1958 and 1962, at 1958 prices; the series are spliced at 1951 and 1958.

[b] SITC sections 5 to 9.

[c] SITC section 3.

[d] North America, western Europe and Japan.

[e] Excluding the centrally planned regions.

[f] Latin America, Africa, western Asia (excluding Turkey), southern and south-eastern Asia and Oceania.

[g] SITC sections 0, 1, 2 and 4.

[h] Preliminary, based on partial returns.

major classes—foodstuffs, raw materials and fuels. Raw materials (including oil-seeds, oils and non-ferrous base metals) have comprised rather more than a third of the total, foodstuffs (animal and vegetable, crude processed in varying degrees, and tobacco) about 30 per cent and fuels (almost entirely crude petroleum and its products) about a fourth (*see* table 2-1).

In the case of foodstuffs, the principal items exported by the primary exporting regions are coffee (which yielded about $2 billion a year in 1959-1961), sugar ($1.2 billion), tea ($0.6 billion), cocoa and rice ($0.5 billion each), beef and wheat ($0.4 billion each), bananas ($0.3 billion), butter, maize, lamb and citrus fruit (about $0.2 billion each). All the trade in raw coffee and cocoa originates in the primary exporting regions; in the case of most of the other food items, exports from the primary exporting regions during the nineteen fifties failed to keep pace with those from the rest of the world.

Among the cereals, for example, the increase in wheat and rice exports between 1950-1952 and 1959-1961 was smaller for the primary exporting regions than for either the industrial or the centrally planned regions and there was a decline in primary exporting

Table 2-1. Primary Exporting Regions: Trade, by Commodity Class, 1957-1961[a]

Item and commodity class	1957		1958		1959		1960		1961	
	Millions of dollars	Percentage of total	Millions of dollars	Percentage of total	Millions of dollars	Percentage of total	Millions of dollars	Percentage of total	Millions of dollars	Percentage of total
Exports										
Total[b]	29,520	100	28,090	100	29,620	100	31,260	100	31,880	
Foodstuffs[c]	9,490	32	9,350	34	9,250	31	9,440	30	9,630	30
Cereals[d]	1,090		1,020		990		1,070		1,180	
Raw materials[e]	8,900	30	7,590	27	8,780	30	9,410	30	7,160	29
Fibres[f]	3,290		2,640		2,880		2,980		3,120	
Ores[g]	1,540		1,200		1,260		1,530		1,480	
Fuels[h]	7,050	24	7,500	27	7,420	25	7,730	25	8,200	26
Non-ferrous base metals[i]	1,340	5	1,040	4	1,360	5	1,500	5	4,720	15
Manufactures[j]	2,440	8	2,190	8	2,430	8	3,000	10		
Imports										
Total[b]	31,790	100	30,250	100	29,700	100	32,880	100	33,270	
Foodstuffs[c]	4,640	15	4,590	15	4,550	16	4,920	15	4,880	15
Cereals[d]	1,200		1,230		1,260		1,530		1,460	
Raw materials[e]	2,200	7	1,920	6	2,150	7	2,510	8	2,370	7
Fibres[f]	470		410		450		580		590	
Ores[g]	120		70		70		80		80	
Fuels[h]	3,530	11	3,420	11	3,240	11	3,300	10	3,400	10
Non-ferrous base metals[i]	2,520	8	2,130	7	1,860	6	2,260	7	22,030	68
Manufactures[j]	18,210	59	17,690	59	17,410	60	19,410	60		

Source: Statistical Office of the United Nations, *Monthly Bulletin of Statistics*.

[a] Estimated on the basis of exports from and exports to countries in the following regions: Latin America, Africa, western Asia (excluding Turkey), southern and south-eastern Asia, Oceania.

[b] Including miscellaneous items (SITC section 9) and undistributable items.

[c] SITC sections 0 and 1.
[d] SITC division 04.
[e] SITC sections 2 and 4.
[f] SITC division 26.
[g] SITC division 28.
[h] SITC section 3.
[i] SITC division 68.
[j] SITC sections 5 to 8 (except 68).

region exports of barley (*see* table 2-2). Only in the case of maize did exports expand more rapidly from the primary exporting regions than from the other regions—reflecting the low level to which exports from Argentina and South Africa had sunk in the nineteen forties. The only other item in which the primary exporting regions registered a clear gain was citrus fruit: increased domestic consumption in Italy held back the rate of growth in exports of oranges and tangerines from western Europe, and relatively more was shipped from the African and Asian shores of the Mediterranean and elsewhere.

Among the meats, the primary exporting regions held their own in the nineteen fifties in the case of mutton—which comes very largely from Oceania—but they lost ground in the case of beef and pork, in which intra-European trade registered the most rapid growth. They continued to export all the coffee and cocoa and almost all the bananas, but lost ground slightly in the case of tea (more of which was coming from mainland China) and sugar, butter and tobacco (in the face of recovery and expansion in supplies from various parts of Europe).

The primary exporting regions were also supplying a smaller share of total exports of fats and oils at the end of the nineteen fifties than at the beginning: they provided a larger proportion of the ground-nuts and sesame seed and continued to provide practically all the palm (lauric acid) oils, but their relative contribution to exports of the animal fats, linseed and oil and most of the other edible seeds and oils declined appreciably in the course of the decade. In the aggregate, the value of world exports of the principal seeds and oils was about 40 per cent higher in 1959-1961 than in 1950-1952, but the earnings of the primary exporting regions from such exports rose by only about 5 per cent, to about $1.3 billion a year.

The primary exporting regions more or less maintained their position as exporters of the natural non-apparel fibres—of which they supply virtually all that enters international trade. Their share of world exports of apparel fibres, however, was significantly smaller at the end of the nineteen fifties than at the beginning. This was partly the result of the expansion in trade in man-made fibres originating in the industrial countries but it also reflects a reduction in their relative contribution to exports of cotton and wool. Altogether, the primary exporting regions earned rather more than $2.7 billion a year from fibre sales in 1959-1961; this was over 20 per cent less than in 1950-1952. For the world as a whole, natural fibre earnings had declined by about 15 per cent in this interval, but this reduction was offset by expansion in the exports of rayon and acetate and various non-cellulosic fibres.

The primary exporting regions continued to provide all the natural rubber entering international trade, but natural rubber lost ground steadily to the synthetic product during the decade. In 1959-1961, the primary exporting regions were earning about $1.3 billion a year from rubber sales; this was about 7 per cent below the 1950-1952 average. The total value of rubber trade (synthetic as well as natural) had increased by about an eighth in this interval.

Even among the minerals the share of the primary exporting regions contracted in the nineteen fifties in more cases than it expanded. The primary exporting

regions continued to supply all the tin ore and most of the bauxite traded outside the centrally planned regions. With the establishment of new refinery facilities, their exports of aluminium, tin and zinc increased rather

Table 2-2. Major Primary Commodities: Changes in the Volume, Value and Unit Value of Exports, by Region, 1950-1952 to 1959-1961[a]

Commodity	Index of export volume, average 1959-1961 (1950-1952 = 100)				Volume of exports from primary exporting regions as a percentage of total		Index of exports from primary exporting regions, average 1959-1961 (1950-1952 = 100)	
	World[b]	Industrial regions[c]	Centrally planned regions[d]	Primary exporting regions[e]	Average 1950-1961	Index, 1959-1961 (1950-1952 = 100)	Unit value	Total value[f]
Wheat	161	142	553	138	20	82	85	119
Rice	138	121	s.b.	111	69	81	77	86
Maize	259	256	140	342	35	135	71	243
Barley	146	214	103	78	31	49	67	53
Beef and veal[g]	232	277	s.b.	211	74	92	133	288
Pork[g]	208	233	...	78	25	42	118	91
Mutton and lamb[g]	130	211	...	128	96	99	144	184
Bananas	167	123	s.b.	168	95	101	85	142
Oranges and tangerines	154	123	s.b.	193	44	123	105	196
Sugar	155	106	374	151	82	98	78	117
Coffee	139			139	100	100	69	96
Cocoa	130			130	100	100	92	119
Tea	124		328	119	94	95	122	145
Tobacco	127	117	203	125	45	98	115	143
Soya beans	398	415	367	166	3	50	80	100
Soya bean oil							72	
Cottonseed	232	414	410	100	36	38	98	96
Cottonseed oil							77	
Rape-seed	161	189	242	25	12	14	87	21
Ground-nuts	152	90	97	165	84	109	94	149
Ground-nut oil							79	
Sesame seed	158		37	189	86	118	110	208
Olive oil	156	197		108	41	77	77	91
Linseed	114	176	123	77	57	80	79	57
Linseed oil							58	
Copra	90	60		92	95	102	97	87
Coconut oil							91	
Palm kernels	109	256		104	95	96	103	107
Palm kernel oil							92	
Palm oil	119	368		117	97	98	87	100
Tallow	254	276	67	172	15	70	69	125
Lard	154	142	s.b.	126	5	64	67	75
Butter	137	110	s.b.	129	48	95	98	135
Cotton	136	153	145	124	54	91	58	72
Wool	133	130	s.b.	129	88	95	62	86
Jute[h]	84	410	s.b.	82	98	98	80	59
Sisal[h]	149	174		147	93	99	49	72
Abaca	76			78	99	100	94	73
Rubber, natural	111			111	100	100	85	93
Aluminium	220	215	...	s.b.	2	s.b.	133	s.b.
Bauxite	234	228	...	234	91	100	144	338
Copper metal	178	204	...	166	65	93	112	184
Lead metal	104	107	...	102	66	98	56	58
Lead ore	174	271	...	148	79	88	51	77
Zinc metal	143	136	...	170	26	119	58	99
Zinc ore	140	152	...	129	61	94	63	83
Tin metal	94	89	...	97	62	103	90	89
Tin ore	71		...	71	100	100	89	63
Tungsten ore	79	53	...	92	73	115	39	36
Solid fuels	94	86	122	75	3	74	107	79
Petroleum, crude	240	163	s.b.	231	96	97	99	229

Source: United Nations, *Commodity Survey, 1962*, appendix to chapter 1.

[a] The qualifications to these data are set out in the source; the symbol *s.b.* indicates a large increase (more than tenfold) from a small base.

[b] Excluding the centrally planned regions in the case of pork, mutton and lamb and metals and ores.

[c] North America, western Europe and Japan.

[d] Eastern Europe, Soviet Union, mainland China.

[e] Rest of world.

[f] Values were derived by applying an average export unit value to the volume of exports.

[g] Fresh, frozen and chilled.

[h] Including allied fibres.

more rapidly than those coming from the industrial regions, but as the centrally planned regions were exporting substantially more of these metals at the end of the decade than at the beginning it is doubtful whether the primary exporting regions' share in world trade rose. The expansion in exports of lead ore and zinc ore and of copper was less from the primary exporting regions than from the industrial regions. In 1959-1961 total earnings (outside the centrally planned regions) from exports of the major non-ferrous metals were about 40 per cent above the 1950-1952 level, but the earnings of the primary exporting regions from this source had risen only 25 per cent, to about $1.7 billion a year.

In the case of solid fuels, exports from the primary exporting regions declined more than did those from the industrial regions; while exports from the centrally planned regions increased. The rapid increase in exports of crude petroleum from the centrally planned regions served to reduce the share of the primary exporting regions in total trade, even though the latter continued to account for the overwhelming bulk of the supplies. In 1959-1961, crude petroleum was by far the largest commodity export from the primary exporting regions, accounting for about $5 billion a year, well over twice the 1950-1952 figure.

Trends in the principal regional flows of the trade of the primary exporting regions

With primary commodities constituting over 90 per cent of their exports, trends in their total trade provide a reasonable approximation to trends in the commodity trade of the primary exporting regions. The volume of exports from the primary exporting regions increased by about 53 per cent between 1950-1952 and 1960-1962 (*see* table 2-3). Exports from the industrial regions increased by rather more than 80 per cent. For the world as a whole (outside the centrally planned regions) the increase was about 70 per cent. Exports from Africa and Oceania expanded at more or less the over-all average rate. Thanks to petroleum shipments, exports from the Middle East grew at a substantially over-average rate: they more than doubled between 1950-1952 and 1960-1962. The lag was in southern and south-eastern Asia and in Latin America. The volume of exports from Latin America rose by less than 50 per cent in the period 1950-1952 to 1960-1962, that from southern and south-eastern Asia by less than 25 per cent.

Table 2-3. Export Quantum Index of Selected Primary Exporting Regions, 1950-1962[a]

(1950 = 100)

Region	*1951*	*1952*	*1953*	*1954*	*1955*	*1956*	*1957*	*1958*	*1959*	*1960*	*1961*	*1962*
Primary exporting regions	101	98	106	108	117	124	128	129	138	145	151	161
Latin America,[b] total	100	95	104	103	110	120	125	127	136	141	142	154
Excluding petroleum	96	88	101	96	103	112	113	118	127	131	131	142
Africa[c]	99	100	112	118	126	131	135	135	150	162	174	182
Middle East,[d] total	103	97	115	125	144	148	153	170	183	204	210	231
Excluding petroleum	87	85	105	104	115	113	117	118	130	144	139	160
Southern and south-eastern Asia	101	93	95	98	105	111	113	107	114	115	120	127
Central Africa[e]	101	108	119	121	124	139	142	143	159	169	186	186
Oceania and South Africa	106	117	123	123	139	148	159	156	173	177	197	201

Source: Statistical Office of the United Nations, *Monthly Bulletin of Statistics.*

[a] Weighted by value of trade in 1953 for 1950 to 1956 and by that in 1959 for 1956 to 1962; the series are linked at 1956 and expressed on the basis of 1950 = 100.

[b] Twenty republics.

[c] Continent.

[d] Including north-east Africa, but excluding Turkey.

[e] Excluding North Africa and South Africa.

The lag in Latin American trade was spread over a wide range of primary commodities. In almost all the major items entering international trade, the proportion of world exports supplied by the region in 1959-1961 was appreciably smaller than that supplied in 1950-1952. The only significant exceptions were tobacco, cotton and hard fibres. In the case of most items the relative decline in the nineteen fifties represented a continuation of a decline in the previous decade. Thus, the Latin American relative contribution to world supplies of cereals, meat, animal fats, beverage crops, vegetable seeds, non-ferrous ores and metals and fuels was in each case much smaller in 1959-1961 than it had been in 1934-1938.

There was a similar reduction in the share of southern and south-eastern Asia in world exports of most of the primary commodities. Even in cases in which there was some recovery in the nineteen fifties, the region's contribution to the total in 1959-1961 was generally well below the pre-war proportion. The most significant exceptions were copra and coconut oil, jute and tin ore and metal: the region remained the predominant supplier of these commodities, though—as these items have been among those with the slowest rate of growth—this did not help to raise the rate of increase in either volume or value of total primary commodity exports.

To some extent the lag in Latin America and in southern and south-eastern Asia has been the counterpart of an accelerated growth in the trade of other primary exporting regions—Africa in the case of bananas, citrus fruit, the beverage crops, ground-nuts and rubber, western Asia in the case of tobacco, cotton and petroleum, Oceania in the case of barley, beef, mutton, wool and lead. But in other cases there has been no compensating growth in other primary exporting regions; the gains have been registered by the industrial regions or—in more recent years—the centrally planned regions. This has happened most notably in the case of many of the temperate farm products—including the cereals, meat and animal fats, beet sugar and edible oil-seeds—

but also with fuels and some of the non-ferrous metals. The expansion in trade in man-made fibres and rubber among the industrial countries has had a similar effect in inhibiting the growth of competitive commodities from the primary exporting regions.

Within the primary exporting regions the trade of the area that is economically more developed has tended to rise more rapidly than that of the under-developed areas: exports from Oceania and South Africa almost doubled in value between 1950-1952 and 1960-1962 whereas exports from the under-developed areas increased by less than 50 per cent. About a fourth of the trade of the under-developed areas moves among the constituent countries and it is this component that has lagged most of all. While the volume of exports from the under-developed areas to the developed areas increased by almost a half in the course of the nineteen fifties, the volume of trade within the under-developed areas themselves increased by less than a fifth (*see* table 2-4).

This does not mean that imports of primary commodities by the under-developed areas lagged to this extent. On the contrary, imports into the primary exporting regions increased more rapidly than imports into the rest of the world in the case of quite a number of commodities, most notably the cereals, sugar, cotton, sisal, rubber, aluminium, lead and zinc (*see* table 2-5). And in most cases the higher rates of increase—reflecting the demand arising from population growth and industrialization—were in the intake of the under-developed areas, particularly southern and south-eastern

Table 2-4. Under-developed Areas:[a] Export Trends, 1950-1960

Year	Value of exports (billions of dollars, f.o.b.)	Percentage shipped to under-developed areas	Export quantum[b] to	
			Developed areas[c]	Under-developed areas
			(index, 1950 = 100)	
1950	18.30	28	100	100
1951	23.14	28	99	107
1952	20.16	27	97	97
1953	20.40	25	109	95
1954	21.43	25	112	98
1955	22.86	25	119	107
1956	24.11	24	127	112
1957	24.40	25	127	118
1958	23.59	24	131	110
1959	24.49	23	141	113
1960	25.79	23	148	120

Source: United Nations, *Monthly Bulletin of Statistics*, August 1962.

[a] Latin America, Africa (excluding South Africa) and Asia (excluding Japan, Turkey and the centrally planned countries).
[b] Weights are 1953 trade values.
[c] North America, western Europe, Japan, South Africa and Oceania.

Table 2-5. Major Primary Commodities: Changes in the Volume and Share of Imports, by Region, 1950-1952 to 1959-1961[a]

Commodity	Index of import volume, average 1959-1961 (1950-1952 = 100)				Volume of imports into primary exporting regions as a percentage of total[b]	
	World[c]	Industrial regions[d]	Centrally planned regions[e]	Primary exporting regions[f]	1950-1961	Index, 1959-1961 (1950-1952 = 100)
Wheat	151	99	s.b.	178	31	119
Rice	132	61	s.b.	133	67	101
Maize	252	246	s.b.	276	10	114
Barley	147	124	s.b.	191	6	142
Beef[g]	228	236	s.b.	105	7	41
Pork[g]	248	165	s.b.	386	3	386
Mutton and lamb[g]	129	122	...	425	4	317
Bananas	163	175	...	(163)	9	100
Oranges and tangerines	152	153	s.b.	67	6	44
Sugar	153	123	886	164	22	108
Coffee	139	137	s.b.	122	6	87
Cocoa	127	118	498	125	5	98
Tea	125	118	s.b.	125	30	100
Tobacco	145	132	s.b.	95	17	66
Soya beans and oil	411	349	s.b.	409	12	98
Cottonseed and oil	216	213	...	202	30	91
Rape-seed	185	177	...	311	26	155
Ground-nuts and oil	146	144	...	138	13	97
Sesame seed	138	138	...	139	45	102
Olive oil	147	178	...	83	26	55
Linseed and oil	111	113	718	54	9	49
Copra and coconut oil	95	89	...	118	24	123
Palm kernels and oil	106	101	...	249	5	234
Palm oil	117	106	s.b.	619	6	536
Tallow	238	235	...	199	28	84
Butter	136	120	s.b.	130	10	95
Cotton	136	120	184	177	12	129
Wool	128	121	265	96	3	77
Jute[h]	84	107	154	38	29	45
Sisal[h]	143	131	s.b.	194	7	134
Abaca	73	74	...	55	3	67
Rubber, natural	111	87	265	151	13	136
Rubber, synthetic	806	629	s.b.	s.b.	12	s.b.

Table 2-5 (*continued*)

Commodity	*Index of import volume, average 1959-1961 (1950-1952 = 100)*				*Volume of imports into primary exporting regions as a percentage of total*[b]	
	World[c]	*Industrial regions*[d]	*Centrally planned regions*[e]	*Primary exporting regions*[f]	*1950-1961*	*Index, 1959-1961 (1950-1952 = 100)*
Aluminium	218	212	...	278	11	125
Bauxite	241	240	...	s.b.	1	s.b.
Copper metal	166	167	...	146	6	88
Lead metal	112	110	...	140	8	124
Zinc metal	162	148	...	241	16	150
Tin metal	107	108	...	96	10	85
Tin ore	72	58	...	227	14	312
Solid fuels	98	97	110	78	4	80
Petroleum, crude	238	279	761	169	31	70

Source: See source to table 2-2.

[a] The qualifications to these data are set out in the source; the symbol *s.b.* indicates a large increase (more than tenfold) from a small base.

[b] Values were derived by applying an average export unit value to the volume of imports.

[c] Excluding the centrally planned regions in the case of pork, mutton and lamb and metals and ores.

[d] North America, western Europe and Japan.

[e] Eastern Europe, Soviet Union, mainland China.

[f] Rest of world.

[g] Fresh, frozen and chilled.

[h] Including allied fibres.

Asia, but also the Middle East, North Africa and Latin America.

Price trends

As pointed out above, the export performance of the under-developed areas during the nineteen fifties was affected not only by the lag in the volume of shipments but also by a decline in prices which was somewhat steeper than that experienced by the developed areas in respect of their primary commodity exports (*see* table 2-6). This reflects in part the fact that at the beginning of the decade price levels were relatively higher for many of the commodities exported chiefly, or entirely, by the under-developed areas (coffee, cocoa and rice among the foodstuffs, sisal, jute, palm oil and copra among the agricultural raw materials, zinc ores and lead ores among the minerals) than for those exported predominantly by the developed areas (lamb and mutton, pig meat, butter and wheat among the foodstuffs, tobacco among the agricultural raw materials, coal among the minerals). During the nineteen fifties many of the prices that had risen most in the previous decade came down steeply while those that had risen less tended to decline less or, in some cases—aluminium, meat, tobacco, for example—to continue upwards.

Thus, by 1962, the average price of foodstuffs moving in international trade had dropped to about a sixth below the 1950 figure in the case of the items coming mainly from the under-developed areas. In the case of the items coming mainly from the developed areas, the price index, though still falling, was still slightly above the 1950 level. There was a similar contrast in the case

Table 2-6. Primary Commodities: Export Price Indices, by Major Region, 1950-1962[a]

(1950 = 100)

Year	*Exports from developed areas*[b]					*Exports from under-developed areas*[c]				
		Raw materials					*Raw materials*			
	Food	*Agricultural*	*Mineral*	*Food and raw materials*	*Non-ferrous metals*	*Food*	*Agricultural*	*Mineral*	*Food and raw materials*	*Non-ferrous metals*
1951	110	141	113	125	138	112	137	106	119	131
1952	116	105	129	112	130	108	94	105	103	141
1953	114	97	130	108	110	106	82	103	98	128
1954	107	98	125	105	111	124	83	106	107	126
1955	106	96	127	103	124	104	88	107	100	159
1956	106	96	142	105	133	103	86	107	99	160
1957	106	97	142	106	115	106	83	113	101	114
1958	105	85	127	98	105	101	75	113	96	101
1959	104	86	120	97	113	89	82	105	91	118
1960	103	87	122	97	116	85	85	102	90	122
1961	103	87	123	98	113	83	78	101	86	115
1962[d]	104	84	124	97	112	83	74	102	85	116

Source: Based on United Nations, *Monthly Bulletin of Statistics*, March 1961 and 1962, June 1962 and April 1963.

[a] Indices are weighted by trade values for the respective areas in 1953 for the period 1950 to 1956, by those in 1959 for the period 1956 to 1962, the two series being linked at 1956.

[b] North America, western Europe (including Turkey), Japan, Australia, New Zealand and South Africa.

[c] Latin America, Africa (excluding South Africa) and Asia (excluding Japan, Turkey and the centrally planned regions).

[d] Preliminary.

of agricultural raw materials, the price index falling rather more sharply for the under-developed area basket of products than for the developed area basket. In the case of minerals (ores and fuels) the divergence was in upward slopes: though declining since 1957, in 1962 the index was higher—relative to the 1950 base—for the developed area basket of products than for the under-developed area basket. In the aggregate, between 1950-1952 and 1960-1962, the price level of food and raw material exports dropped about 19 per cent for the under-developed areas and about 13 per cent for the developed areas. For the non-ferrous metals the corresponding declines were about 5 per cent and 7 per cent.

If a basket comprising the major commodities in the proportions exported by the primary exporting regions during the nineteen fifties is valued at prices prevailing at other times—all measured in pre-1934 United States dollars—it is seen that by 1959-1961, the average level of prices, though still about two and a half times as high as it was in the second half of the nineteen thirties, had dropped below the 1924-1928 level (*see* table 2-7). In relation to prices in the second half of the nineteen twenties, 1959-1961 prices were lowest in the case of rubber and fibres—the commodity categories subject to the greatest degree of competition from man-made substitutes—but they were also down in the case of most of the principal food items, with the notable exceptions of beef, rice, cocoa and bananas.

Table 2-7. Primary Exporting Regions: Change in Unit Value or Price of Average 1950-1961 Basket of Major Commodity Exports[a]

	Index, average 1959-1961 unit value or price		
Commodity group	*1950-1952 = 100*	*1934-1938 = 100*	*1924-1928 = 100*
Cereals[b]	76	257	89
Meat[c]	129	297	139
Fruit[d]	90	245	121
Sugar	82	235	86
Beverage crops[e]	79	351	102
Tobacco	114	228	109
Oil-seeds and oil[f]	85	319	103
Fibres[g]	62	252	81
Rubber	80	230	50
Non-ferrous metals[h]	93	277	114
Fuels[i]	100	281	117
TOTAL, above groups	83	273	95
Manufactures	109	212	98

Source: Bureau of General Economic Research and Policies of the United Nations Secretariat, based on United Nations, *Statistical Yearbook;* Food and Agriculture Organization of the United Nations, *The State of Food and Agriculture, 1962* (Rome); United States Department of Commerce, *Statistical Abstract of the United States, 1950* (Washington, D.C.); Metallgesellschaft Aktiengesellschaft, *Metal Statistics* (Frankfurt am Main).

[a] Average annual quantities of the indicated commodities exported in 1950 to 1961, by Latin America, Africa, western Asia, southern and south-eastern Asia (excluding Japan and the centrally planned regions) and Oceania and priced according to average unit value of world exports (in the case of the non-ferrous metals, average price on the London Metal Exchange) in the periods indicated, converted in each case to pre-1934 United States dollars.

[b] Wheat, rice, barley, maize.

[c] Beef and veal, mutton and lamb, pork, fresh, frozen and chilled.

[d] Bananas, oranges and tangerines.

[e] Coffee, cocoa and tea.

[f] Soya beans and oil, ground-nuts and oil, olive oil, linseed and oil, copra and oil and palm oil.

[g] Cotton, wool, jute and sisal.

[h] Aluminium, copper, lead, tin and zinc, valued at prices on the London Metal Exchange.

[i] Coal and petroleum, valued at United States export unit values for purposes of pre-war comparisons.

The price index of this basket of primary commodities had risen much more rapidly than the average price of manufactured goods in the nineteen forties: its purchasing power—in terms of manufactures—was almost 50 per cent higher in 1950-1952 than in 1934-1938. During the nineteen fifties, however, the decline in primary commodity prices was accompanied by a rise in the price of manufactures. By the end of the decade the purchasing power of the primary commodity basket, though still substantially greater than in the years of the Great Depression, had dropped below its 1924-1928 average.

As the composition of the primary exporting regions' actual exports in these earlier periods differed markedly from that of this 1950-1961 basket and as the nature of manufactured goods moving in international trade also changed radically, a price comparison of this type is no more than indicative of the direction and order of magnitudes of relative movements. It is clear that the loss of "purchasing power" experienced by primary commodities in the nineteen thirties was more than made good in the nineteen forties and that the nineteen fifties saw another downswing which, though levelling out somewhat in the most recent period, has not necessarily come to a halt.

This latest downswing in primary commodity prices has had a considerable impact on the average unit value of exports from the under-developed areas: this has fallen more or less persistently since 1951 and in 1960-1962 the index was over an eighth lower than in 1950-1952. Since the imports of the under-developed areas consist to a large extent—about 60 per cent in the period 1955-1960 (*see* table 2-1)—of manufactures whose average price climbed fairly steadily upwards during the decade, there was only a small offset from movements in import unit value. As a result, the terms of trade of the under-developed areas deteriorated by about 10 per cent between 1950-1952 and 1960-1962.[4]

ASSESSMENT AND PROSPECTS

The lag in the volume of shipments from the under-developed areas in the past twelve years reflects the operation of many influences the incidence of which varies widely from commodity to commodity and from country to country.[5] Among the most important general influences was the recovery in production and trade in the areas most seriously affected by the war, particularly Europe, the Soviet Union and mainland China. The more rapid rise in the exports of these regions during the nineteen fifties was, for many commodities, a matter of catching up from a reduced base. This was aided by a notable rise in productivity, originating largely in North America where primary production had been greatly extended during the nineteen forties. The technical advances on which this rested were less readily transferable to the under-developed areas than to other industrial regions.

Thus, in many cases production lagged in the under-developed areas and when this occurred in the face of expanding domestic demand—from an accelerated population growth and from the development of manufacturing industries with first claim on indigenous raw materials—the rate of increase in exportable supplies was considerably reduced. In many cases, indeed—especially

[4] *See* chapter 1.

[5] *See* United Nations, *Commodity Survey, 1962.*

in southern and south-eastern Asia, where recovery from war-time destruction and disruption was retarded by other difficulties—under-developed countries emerged as net-importers of various primary products.

The availability of exportable supplies or of productive capacity, however, was not always sufficient to ensure a rapid growth in exports. For many commodities the rate of increase in import demand in the deficit countries slowed down appreciably in the course of the decade. The reason for this varied. The relatively low rate of economic growth in one or two of the leading industrial countries affected partner countries providing raw materials. The continuing growth of domestic sources of supply in the importing countries—whether of the commodity itself or of a substitute—affected the demand for a number of products, including fibres, rubber, butter and the cereals. The low and declining response of demand to rising incomes in many of the industrial countries exercised a negative effect on trade in a number of basic foodstuffs—cereals generally, and sugar, coffee and tea in countries where per capita consumption was already relatively high.

Technological progress continued to raise the efficiency of material use: there was a widespread movement towards the use of lighter and less raw material and the improvement of output/input ratios, and this affected the demand for a number of commodities, particularly wood, metals and fuels. The extremely rapid expansion in aluminium production in the industrial countries was one notable example of this: it stimulated trade in bauxite but tended to inhibit trade in other metals and materials. The chemical industry—the most dynamic in the post-war period—continued to produce raw materials, many of which, especially among the so-called "plastics", tended to displace traditional commodities, such as shellac, leather and linseed oil, as well as wood and metal.

Commercial and economic policies also played a part in holding down the commodity trade of the primary exporting regions. Notwithstanding their high productivity, many of the primary activities in the industrial countries have been sustained, behind protective tariffs, by price support policies designed to keep incomes in the agricultural and mining sectors more or less in line with those in other sectors. In a number of cases the result was the encouragement of an output greater than that which the domestic market would absorb at the supported prices. The resultant accumulation of surpluses was instrumental in expanding the primary commodity exports of the industrial countries.

In some cases, sumptuary taxes have tended to hold down consumption of particular commodities. Fiscal duties and the marketing policies of state trading concerns have raised or kept relatively high the retail prices of various products not domestically produced—particularly tobacco and the beverage crops—thus acting as a restraint on imports.

The factors lying behind the lag in primary commodity exports from the under-developed areas in the past decade thus tend to fall into three broad categories: those arising from the distortions of production and trade patterns caused by the Second World War; those reflecting significant technological or economic features of the consumption and demand situation, and those whose origin lies in the commercial, fiscal and economic policies pursued by importing and exporting countries. Though particular influences are often closely interrelated, this division is helpful in assessing prospective developments. For, by and large, the post-war readjustment process has been completed and changes occasioned by the restoration of earlier trade flows or recovery from a greatly reduced base are no longer likely to characterize the course of commodity trade in the way they did in the first decade after the war. Consequently, due weight can be attached to influences in the other two categories.

The category of policy variables is discussed in two subsequent sections of this chapter. (The immediately following section deals with the primary commodity trade flows between developing countries on the one hand and the developed countries on the other; the next section deals with the trade flows among developing countries.) In these there is a preliminary examination of the way in which commodity trade may be impeded by the factors over which governments normally exercise considerable control—economic policies affecting the volume and nature of resources devoted to domestic primary production, fiscal policies affecting the internal distribution of purchasing power, institutional arrangements affecting the financing, transport and marketing of primary commodities moving in both internal and foreign trade.

In the remaining category are the influences that are less amenable to control. They comprise the basic economic and technical features of the current situation that are likely to be among the major determinants of developments in the period immediately ahead. During the nineteen fifties most of these influences emerged as inhibitors rather than promoters of commodity trade: the dominant ones were low income elasticity in the case of foodstuffs and high propensity to economize and substitute in the case of raw materials. The primary exporting regions were earning less from rubber and fibre shipments at the end of the decade than at the beginning, and their earnings from cereals, beverage crops and oil-seeds and oils increased at an average rate of less than one per cent a year. Earnings from sugar increased at about 2 per cent a year, from non-ferrous metals at about 3 per cent, from tobacco about 4 per cent and from fruit at about 5 per cent. Earnings from meat and fuels, on the other hand, more than doubled in the course of the decade.

There is no assurance that growth rates of these proportions will continue, but the 1950-1961 figures do reflect the relative vulnerability of the various commodities to the forces impeding expansion. Natural rubber and fibres are the items currently most exposed to competition from synthetics, while meat and fruit are among the few food items in which consumption in the industrial countries is still showing response to increases in incomes as well as to increases in population. Earnings from petroleum are still rising very rapidly, but as part of the gain in the nineteen fifties was of a "once-and-for-all" type, arising from displacement of coal, the rate may well tend to slacken.

For most primary commodities the key to future, long-run expansion in demand lies in large measure in the countries in which per capita consumption is relatively low. To the extent that this depends on the raising of income levels in developing countries, it is an integral part of the general question of economic development. Until this demand becomes effective in international markets, however, the course of primary commodity trade will continue to be influenced most strongly

by events and policies in the principal industrial countries, which remain the largest source of demand. Progress in the primary exporting regions will thus continue to depend in part on the rate of economic growth maintained in the industrial countries, in part on the extent to which the production and commercial policies pursued in those countries allow such growth to be reflected in demand for imports.

Market opportunities for primary commodities in developed countries

THE DIMENSIONS OF CURRENT TRADE FLOWS

About two-thirds of the $66 billion of primary commodities moving in international trade each year in the period 1959-1961 comprised imports of the industrial regions. And of the primary commodity intake of the industrial regions about 45 per cent came from the primary exporting region (*see* table 2-8[6]). Over 90 per cent of the exports of the primary exporting regions consisted of primary products and almost three-fourths of the latter moved to the industrial regions. It is with this flow—valued at about $20 billion a year in 1959-1961—that this section is chiefly concerned.

About 60 per cent of this flow of primary commodities went to western Europe, rather more than 30 per cent to North America and the remainder to Japan. Rather more than a third of it consisted of foodstuffs (raw and manufactured) and another third crude materials (including oil-seeds and oils, some of which are subsequently used as food). About a fourth comprised mineral fuels, chiefly crude petroleum but also a variety of petroleum products. The remaining 6 to 7 per cent of the exports from the primary exporting regions consisted of base metals, wrought as well as unwrought.

In the case of the fuels and metals, these proportions were very similar in the three main flows—to North America, to western Europe and to Japan. There were marked differences in the food and raw material content of the flows, however. The proportion of food was only about a sixth in the case of exports from the primary exporting regions to Japan, more than twice that in the flow to western Europe and over 40 per cent in the flow to North America, with coffee the predominant item. Conversely, the raw material content of the flow was not much more than a fourth in the case of the North America intake, but over a third of the western European intake and over 60 per cent of that of Japan.

The concentration in this section on the factors influencing the flow of commodities from the primary exporting regions to the industrial regions is a reflection of the strategic importance of this particular flow to the process of economic development in all the primary exporting countries. Not only does this flow provide the developing countries with the bulk of the foreign exchange required for financing imports that are essential for future growth but, as pointed out in the previous section, it is a flow that has been lagging in recent

[6] Measuring in SITC categories, as is done in table 2-8, has the effect of overstating the primary commodity content of trade: sections 0-4 include processed foodstuffs and materials. Since most customs tariffs discriminate against processed products—flour being taxed more heavily than wheat, chocolate more heavily than cocoa, oil than oil-seeds, wine than grapes and so on—this classification is of very limited use in any analysis of impediments to trade. In the present context, however, it serves the purpose of delineating the general orders of magnitude of the various trade flows, both inter-regionally and as among the broad commodity categories.

Table 2-8. Imports of Primary Commodities into Industrial Regions, 1959-1961

(Annual average, in billions of dollars, f.o.b.)

Commodity class and region of origin of imports	Imports into: World[a]	Imports into: Industrial regions: Total	North America	Western Europe	Japan
Food, beverages and tobacco[b]					
World	22.3	15.2	4.0	10.7	0.5
Industrial regions	10.5	7.4	1.4	5.8	0.2
Primary exporting regions[c]	9.4	7.1	2.6	4.2	0.3
Latin America	3.7	3.1	1.8	1.3	0.1
Africa[d]	2.1	1.7	0.3	1.4	—
Asia and north-eastern Africa[e]	2.3	1.2	0.3	0.7	0.1
Oceania and South Africa	1.5	1.1	0.2	0.9	0.1
Crude materials[f]					
World	20.4	15.2	3.5	9.9	1.9
Industrial regions	8.9	7.6	1.8	5.1	0.8
Primary exporting regions[c]	9.1	7.0	1.7	4.2	1.1
Latin America	1.6	1.4	0.6	0.7	0.2
Africa[d]	2.6	2.0	0.3	1.6	0.1
Asia and north-eastern Africa[e]	3.9	2.4	0.6	1.3	0.5
Oceania and South Africa	1.7	1.5	0.2	1.0	0.3
Mineral fuels[g]					
World[a]	12.7	7.9	2.1	5.3	0.5
Industrial regions	3.3	2.6	0.4	2.0	0.1
Primary exporting regions[c]	7.8	4.9	1.7	2.8	0.4
Latin America	2.4	1.4	1.0	0.4	—
Asia and north-eastern Africa[e]	4.2	2.7	0.4	1.9	0.3

Table 2-8 (*continued*)

Commodity class and region of origin of imports	Imports into				
		Industrial regions			
	World[a]	Total	North America	Western Europe	Japan
Base metals[h]					
World	10.6	6.8	1.6	5.1	0.2
Industrial regions	7.8	5.3	1.2	4.0	0.1
Primary exporting regions[c]	1.5	1.3	0.3	0.9	0.1
Latin America	0.5	0.5	0.2	0.3	—
Africa[d]	0.7	0.6	—	0.5	—
All primary commodities above					
World	66.1	45.1	11.1	30.9	3.1
Industrial regions	30.5	22.9	4.8	16.9	1.2
Primary exporting regions[c]	27.8	20.2	6.3	12.1	1.8

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.*

[a] Including special category exports and other items whose destination could not be determined.

[b] SITC sections 0 and 1.

[c] Latin America, Africa, Asia (other than Japan, Turkey and the centrally planned regions and Oceania.

[d] Continent, including South Africa and north-eastern Africa.

[e] Asia (excluding Japan, Turkey and the centrally planned regions), Ethiopia, Libya, Somalia, Sudan and United Arab Republic.

[f] SITC sections 2 and 4.

[g] SITC section 3.

[h] SITC divisions 67 and 68 (excluding 681).

years. In examining the impediments to this flow and the possibility of removing them and expanding the flow, it has to be borne in mind that the industrial regions draw less than half their commodity imports from the primary exporting regions. The problem is thus a dual one: it is not merely a question of increasing primary commodity trade, it is also a matter of reversing the downward drift in the primary exporting regions' share in that trade.

EXPANSION OF THE FLOW OF COMMODITIES FROM THE DEVELOPING COUNTRIES TO THE INDUSTRIAL COUNTRIES

The rate of expansion in exports of primary commodities from the developing countries to the industrial countries depends on four principal considerations:

(i) The rate at which consumption or industrial absorption is increasing;

(ii) The extent to which consumption needs are met from domestic supplies;

(iii) The extent to which import needs are met by other countries;

(iv) The availability of appropriately priced exportable supplies in the developing countries.

Obstacles to expansion may exist at each of these levels. They vary considerably in both their incidence and their amenability to adjustment or modification.

Factors affecting rates of consumption

Rates of consumption reflect tastes, incomes and technology—three factors which do not lend themselves to ready manipulation. In general, higher incomes mean higher rates of consumption, but for many primary commodities the response of consumption to an increase in income is relatively small—and the higher the per capita income the less the response. In some of the higher-income countries, indeed, per capita consumption of some commodities has been reacting negatively to increases in income; in several industrial countries, for example, less wheat and other carbohydrate food is being consumed per person now than when incomes were lower. The existence of some sort of "saturation level" tends to set a relatively low ceiling on the rate of increase in consumption of several primary commodities in the industrial countries.

In recent years, technical and economic forces have also been working to hold down elasticities. As a result of the increasing weight of the tertiary and service sectors in the composition of the gross national product, the growth of most industrial countries is not paralleled by the rate of expansion of intake of raw materials. This discrepancy is accentuated by the acceleration which has taken place in the evolution and diffusion of material-saving techniques. Economies in use and improvements in the ratio of output to input are likely to continue to exercise a depressing effect on elasticities in the years immediately ahead, even in the absence of further new inventions or technical innovations. For example, the mere process of replacing obsolescent power stations—many of which have an efficiency of fuel utilization of less than 25 per cent—with new generators whose efficiency now averages over 30 per cent will continue to effect sizable fuel economies over the next decade, irrespective of possible future advances.

The operation of forces of this nature has serious implications for the developing countries. The attainment of a 5 per cent annual rate of increase in export earnings may well require the achievement of a growth rate of appreciably above 5 per cent in the national income of industrial countries, unless there are significant changes in the structure of trade in the former and demand in the latter.

While little can be done to remove the barrier arising from a low income elasticity of demand, some action can be and has been taken to influence tastes and technology. This is an area in which producer groups have taken the lead, operating on two fronts—seeking on the one hand to increase, by favourable publicity, the consumption of the particular primary product in traditional ways and on the other to extend, by research, the fields, methods and forms of its utilization. Efforts of this nature have been made to expand the consumption of tea, butter, cotton, wool, natural rubber and several of the non-ferrous metals. And plans are on foot to organize demand-creating activities on behalf of several other commodities, including coffee and olive oil.

Much more influenced by policy decisions and no less important in its effect on consumption is price. In general, the demand for most primary commodities is inelastic in respect to price: at least in the short-run. export earnings move—both upwards and downwards —with price. Downward movements of price create obvious difficulties for the developing countries, not only because of the ensuing decline in foreign exchange earnings but also because of the deteriorating position of producers (or support agencies) as price approaches and drops below cost (or support levels). But increasing prices also create difficulties, especially in the longer run in which users can turn to substitutes or modify production processes. As some of the demand diverted in this way is usually permanently lost to the commodity in question, producers are becoming as concerned about upswings in price as about downswings.

Stabilization policies adopted in recent years, whether through formal international agreements or through *ad hoc* arrangements,[7] indicate that producers are tending to attach greater importance to considerations of longer-run demand than they did in the inter-war period when the pace of technological change was slower and it was more difficult to perceive the longer-run vulnerability of particular commodities to alterations in demand, replacement by substitutes and adaptation of processes. There is still a great chasm between awareness of the problem and actual implementation of such policies, however, and only a small fraction of international commodity trade is directly affected by arrangements in which consuming interests as well as producing interests are represented.

While, subject to these longer-term restraints, producers have an obvious interest in obtaining the highest possible return for their primary commodity sales, the volume of these sales is maximized by holding prices down. Developing countries stand to gain, therefore, by the narrowing of distribution margins. The scope for doing this varies from commodity to commodity and from country to country. The objective of increasing consumption rates would generally be well served by periodic reviews of marketing methods: when a commodity moves from a peasant cultivator in the hinterland of one continent to an urban housewife in the interior of another continent there will doubtless be plenty of scope for continually improving the efficiency of the many segments of the lengthy distribution process.

There is one particular price-raising charge which has been discussed on a number of occasions in recent years: this is the levy imposed by some governments on certain commodity imports for fiscal purposes. Such levies are usually the relics of sumptuary taxes; in many cases they now make only a minute contribution to government revenue, however, even when the rate is a high proportion of the import price of the commodity. In some countries duties on tobacco and wine are of this nature, but the commodity taxes which have been singled out most frequently because of the wide disproportion between their effect on price and their contribution to revenue are those on coffee, tea and cocoa (*see* table 2-9).

The elimination of taxes of this nature would have a negligible effect on revenue but—depending on the extent to which retail prices benefited—might exert a significant stimulus on consumption. Estimates made in twelve countries in western Europe in 1962 suggest that the complete abolition of customs duties and fiscal charges then operative might be expected to result in an increase in imports of about 11 per cent for coffee, 8 per cent for cocoa and 5 per cent for bananas. Tea imports, however, were unlikely to be significantly affected by the elimination of existing taxes.[8]

Factors affecting the import content of consumption

The extent to which increases in consumption of primary commodities in the years immediately ahead will be reflected in increases in imports will vary from one industrial country to another, depending not only on resource endowment, the present structure of domestic production and future technological developments, but also on policy measures affecting future investment and trade. While such measures will be strongly influenced by the position of domestic producers of the commodity in question, they can also be made to respond to other policy objectives—in particular, in the present context, to the need to expand the exports (and the purchasing power and imports) of developing countries.

In general, primary commodity imports are under restraint of one type or another in all industrial countries in which there is some local production of the item in question. In some cases the restraint is no more than a protective tariff; in a great majority of cases, however, the tariff is backed by quantitative controls. The precise nature of these controls varies widely, depending on the structure of trade in the commodity in question and on the organization of the domestic support system which they are required to complement.

These domestic support systems reflect efforts made to stem deterioration in the terms of trade of primary producers on a national scale. In most countries such efforts depend on control over the total supply reaching the domestic market—from imports as well as local production. As the local output is not always stable or even accurately determinable in advance, the mechanism for adjusting total supply involves complete but flexible control over imports, usually through variable quotas, allotted by the importing government or its agent either directly to supplying countries or to do-

[7] Such as the recent effort of copper producers to hold the price of copper within the range reckoned to be the optimum in relation to costs on the one hand and substitution losses on the other. Producers have agreed to stockpile releases (as in the case of rubber) or even urged them (as in the case of sisal) on the understanding that they would be geared inversely to market prices, thus having the effect of dampening upswings. *See also* the section below on Measures for stabilization of primary commodity markets.

[8] *See* Food and Agriculture Organization of the United Nations, "Europe's Demand for Tropical Agricultural Products" (mimeographed document ERC/62(6)).

Table 2-9. Incidence of Charges on Beverage Crops in Selected Countries, 1958[a]

Country	*As percentage of import price*			*As percentage of total government revenue*		
	Cocoa	*Coffee*	*Tea*	*Cocoa*	*Coffee*	*Tea*
Austria	...	51	98	...	0.43	0.06
Belgium	...	—	...	...	—	...
Denmark[b]	80	23	...	0.50	0.97	...
Finland[c]	29	99	88	0.01	3.49	0.07
France	...	36–54	52–55	...	0.73	0.01
Germany (Federal Republic)	...	89	112	...	2.34	0.13
Italy	...	102	64	...	1.83	0.03
Netherlands	5	—	...	0.1	—	...
Norway	...	—	...	...	—	...
Japan	20	49	...	0.03	0.08	...
Sweden	...	14	...	...	0.04	...
Switzerland	...	11	...	...	0.46	...
United Kingdom	4	1–4	0–4	0.02	0.01	0.01
United States	—	—	—	—	—	—

Source: General Agreement on Tariffs and Trade, *Basic Instruments and Selected Documents; Ninth Supplement* (Geneva, February 1961), pages 127, 130 and 141.

NOTE: Since various changes have occurred since 1958, these figures do not represent the current situation; they are intended to show the general order of relative magnitude of the type of commodity tax involved.

[a] Import duties, revenue and turnover taxes and other fiscal charges levied on the raw product.

[b] 1957.

[c] Not including turnover tax on coffee; figures for tea were partly estimated.

mestic traders organized under some sort of licensing system. Supplies thus bought at world market price are generally subject to a variable tax, sufficient to raise their landed price at least to the level at which domestic supplies are supported, though in a few cases, in which producers' incomes are supported directly—through "deficiency payments"—rather than through the price of the commodity, the latter may be marketed internally at the world price.

The allocation of quotas under such a system of import control may embody various elements of preference or reflect bilateral exchanges or even barter agreements. In some cases, a state trading apparatus is employed, especially when the support scheme itself requires the holding of inventories. In other cases, the system is operated through registered dealers or even through manufacturers who use the commodity; this is sometimes accomplished through "mixing" formulae under which the manufacturer is required to use prescribed proportions of domestic and imported supplies during given periods.

A global analysis of the incidence of import restrictions of this nature is rendered difficult not only by their extreme complexity—in each country each commodity has its own intricate mechanism of control—but also by the fact that they are usually designed to provide maximum flexibility. This is particularly so in the case of many of the agricultural commodities for which domestic price supports may be varied seasonally and import quotas adjusted at relatively short notice to accommodate the expected results of climatic changes. Added to these difficulties is the fact that at present—as for the past two or three years—the countries forming the European Economic Community (EEC), all major traders in most of the primary commodities, are engaged in formulating common agricultural and energy policies. The shape of these policies has been determined for only a few commodities and even for these, transitional arrangements, which may last for several years, are still being negotiated.

In the light of these considerations it is evident that any attempt at an over-all appraisal of the obstacles arising from economic and trading policy measures and standing in the way of the full participation by the developing countries in future expansion in the consumption of primary commodities in the industrial countries cannot be other than impressionistic. Table 2-10 and the discussion that follows must be interpreted in these terms: they are intended to indicate the nature and complexity of the situation rather than the precise magnitude of the obstacles facing each commodity in each country. Quantification of the problem can be done only on the basis of continuing, case-by-case study.

Since the policy obstacles to the expansion of imports arise very largely as the corollary to measures designed to protect or support domestic producers of the commodity in question, there is some analytical advantage in classifying the products which provide the bulk of the foreign currency earnings of the primary exporting regions into three categories:

(*a*) Those which are produced in the industrial countries in significant quantities, including, in particular, the so-called "temperate" farm products;

(*b*) Those which are not produced in the industrial countries, including in particular, the so-called "tropical" products, and

(*c*) An intermediate group of commodities which, though not produced in the industrial countries in significant quantities, compete directly with close substitutes that are.

This is a very loose classification since primary commodities coming from different sources are rarely identical, even when nominally belonging to the same category. And differences that may be rooted in local consumer taste or manufacturers' needs and preferences may be reflected in tariff and import control differentiation: soft wheat may face greater impediments than hard wheat, "inedible" oil than "edible", high-grade tobacco than low-grade, short staple cotton than extra

Table 2-10. Major Primary Commodities: Production, Imports and Trade Barriers in North America, Western Europe and Japan[a]

Country	Production	Imports	Restraints on imports: Tariff[b]	Restraints on imports: Other[c]	Production	Imports	Restraints on imports: Tariff[b]	Restraints on imports: Other[c]
			WHEAT				RICE	
Austria	613	210	0-7.3	CS	—	34	0	—
Belgium	799	434	5-6%	CM	—	68	6%	—
Denmark	319	110	0	CM	—	6	0.3	—
France	10,719	388	0-6%	CS	125	77	0-4.8%	CS
Germany (Federal Republic)	4,402	2,243	0	CSMA	—	142	0-15%	C
Greece	1,748	44	T	CSM	62	7	..	—
Ireland	396	229	..	C	—	3	..	..
Italy	8,362	270	17.5-24.9%	CS	704	1	11.2-16.0%	C
Netherlands	495	771	0	CM	—	76	0	—
Norway	20	296	0	CS	—	5	1.0-2.8	L
Portugal	641	65	0	CS	154	2	1.0-4.5	L
Spain	4,240	42	T	CS	374	—	..	..
Sweden	753	137	3.9	—	—	10	0	—
Switzerland	354	362	0.1-0.7	LSM	—	17	0.1	LM
United Kingdom	2,875	4,369	0	A	—	89	0-1.7	—
Canada	11,565	—	..	C	—	35	0	..
United States	35,702	216	1.5	C	2,313	14	2.8-5.5	P
Japan	1,409	2,457	20%	C	15,562	319	15%	CA
European Economic Community	24,777	4,106	T_v	—	829	364	[d]	—
			BARLEY				MAIZE	
Austria	443	119	0-6.6	CSA	171	503	0-5.6	CS
Belgium	366	357	6%	L	2	518	6%	—
Denmark	2,541	441	0	CM	—	119	0	CM
France	4,846	97	0.3%	CS	2,103	233	0-2.7%	S
Germany (Federal Republic)	2,829	1,346	0	CM	15	3,164	0	CM
Greece	239	18	..	—	266	64	..	—
Ireland	412	29	..	C	—	77	..	C
Italy	269	264	7-10%	CA	3,788	1,153	0-9%	CA
Netherlands	291	469	0	—	2	1,128	0	—
Norway	348	35	0	CS	—	60	0	CS
Portugal	73	3	0	L	457	24	0.4-2.1	L
Spain	1,810	80	T	CS	962	73	T	CS
Sweden	723	69	1.5	—	—	47	3.3	—
Switzerland	74	212	0.1	CSM	4	77	0.1	CSM
United Kingdom	3,870	1,025	10%	—	—	2,820	0-10%	—
Canada	4,916	—	..	C	764	338	..	—
United States	9,658	293	0.3-0.9	—	103,670	34	0.4-1.0	—
Japan	2,228	401	10%	C	110	978	10%	L
European Economic Community	8,601	2,533	T_v	—	5,910	6,196	T_v	—
			BEEF				LAMB	
Austria	123	2	T_v	C	5	—	0	C
Belgium	210	7	8.4-14.4	CSP	2	2	8.4-14.4	CS
Denmark	153	—	0	C	1	—	0	C
France	1,310	26	0-20	C	117	6	17.5-23.5	C
Germany (Federal Republic)	963	47	7-20	CS	19	—	14-20	CS
Greece	22	9	0	—	66	8	0	—
Ireland	98	—	T	C	36	—	T	C
Italy	501	118	12.6-20.0	CA	39	1	12.6-20.0	CA
Netherlands	220	15	8.4-14.4	C	9	—	8.4-14.4	—
Norway	53	1	..	C	19	—	..	C
Portugal	38	5	..	C	18	—	..	..
Spain	160	—	..	S	118	—	..	S
Sweden	134	9	T_v	C	1	1	27.0	C
Switzerland	98	16	T_v	C	3	—	2.3	C
United Kingdom	796	376	0-20%	C	224	366	..	—
Canada	432	8	6.4	—	15	10	8.6-12.9	—
United States	6,796	196	6.6	—	331	20	5.5-7.7	—

Table 2-10 (*continued*)

Country	Production	Imports	Restraints on imports: Tariff[b]	Restraints on imports: Other[c]	Production	Imports	Restraints on imports: Tariff[b]	Restraints on imports: Other[c]
	BEEF (*continued*)				LAMB (*continued*)			
Japan	143	4	..	C	9	7	..	—
European Economic Community	1,894	213	(20)	(C)	70	9	..	..
	SUGAR				BUTTER			
Austria	285	12	7.7	AL	39	—	..	C
Belgium	400	84	0-24% + 3.5-4.2	CL	88	1	9.7-17.7%	C
Denmark	331	—	1.3-2.1	CL	165	—	..	C
France	1,781	591	0-99%	CSL	350	13	0-7.2%	CS
Germany (Federal Republic)	1,739	104	0-24%	CS	409	18	16-24%	CS
Greece	—	123	..	—	10	—	..	—
Ireland	130	45	..	..	62	—	..	C
Italy	1,173	49	68.2-90.5%	CSA	65	19	18.9-25.3%	C
Netherlands	594	210	0-24% + 3.6-4.3	—	90	—	9.7-17.7%	—
Norway	—	152	2.8	CSL	18	—	..	C
Portugal	11	146	4.0-5.0	..	7	—	..	..
Spain	508	75	..	..	4	—	..	..
Sweden	304	66	6.5-7.6	C	83	1	..	C
Switzerland	38	222	4.2-6.3	—	33	1	20-30% + 23.2	CS
United Kingdom	879	2,541	0.7-3.2	A	33	410	4.1	C
Canada	153	670	0.4-4.1	—	155	—	17.1-30.0	C
United States	2,666	4,251	T_v	CA	655	—	15.4-30.9	C
Japan	143	1,198	12.0-1.8	CAL	12	1	45%	C
European Economic Community	5,687	1,038	..	—	1,002	51	..	..
	CITRUS FRUIT				BANANAS			
Austria	—	81	..	—	—	24	8%	—
Belgium	—	134	..	—	—	63	10.5-16.5%	—
Denmark	—	39	..	C	—	25	0.1	—
France	2	690	..	..	—	348	13-20%	A
Germany (Federal Republic)	—	760	..	..	—	435	0-6%	—
Greece	276	—	..	..	—	4	..	..
Ireland	—	16	..	..	—	6	..	..
Italy	1,226	—	..	..	—	70	25.2-31.2%	S
Netherlands	—	173	..	..	—	56	0	—
Norway	—	48	..	—	—	25	0.9	—
Portugal	118	—	..	..	—	2	11.1	..
Spain	1,511	—	..	..	289	123	5%	—
Sweden	—	97	..	..	—	39	1.9	—
Switzerland	—	89	..	—	—	38	4.6	—
United Kingdom	—	481	0-10%	—	—	302	2.1	A
Canada	—	262	..	..	—	157	0-110	—
United States	7,280	25	1.1-3.3	C	—	1,793	0	—
Japan	960	3	..	C	—	39	..	C
European Economic Community	1,228	1,757	T	(C)	—	972	(20)	—
	COFFEE				COCOA			
Austria	—	10	23.0-94.1	—	—	10	1.9-11.5	—
Belgium	—	59	0-4.8%	—	—	11	0-2.7	—
Denmark	—	39	26.2-32.2	C	—	4	0	—
France	—	194	13-18%	C	—	56	0-3%	CL
Germany (Federal Republic)	—	182	24-46.8	—	—	103	6.5-9.0%	—
Greece	—	7	4.7	CS	—	2	1.7	C
Ireland	—	—	..	—	—	5	..	—
Italy	—	88	12.2-24.0	—	—	26	0	—
Netherlands	—	50	0-4.8%	—	—	74	0-2.7	—
Norway	—	27	0-14.0	C	—	4	2.24	—

Table 2-10 (*continued*)

Country	Production	Imports	Restraints on imports: Tariff[b]	Restraints on imports: Other[c]	Production	Imports	Restraints on imports: Tariff[b]	Restraints on imports: Other[c]
		COFFEE (*continued*)				COCOA (*continued*)		
Portugal	—	11	10.4-34.6	—	—	1	8.3	..
Spain	—	15	..	—	—	20	..	—
Sweden	—	68	8.7-15.4	—	—	7	2.9	C
Switzerland	—	27	12.5-23.2	CL	—	12	0.2-11.6	CL
United Kingdom	—	51	1.3-3.9	—	—	93	3.2-3.9	—
Canada	—	58	0-10.7	—	—	13	0.6-4	—
United States	—	1,308	0	—	—	223	0	—
Japan	—	8	35%	C	—	8	5%	—
European Economic Community	—	573	(9.6)	..	—	270	(5.4)	—
		TEA				TOBACCO		
Austria	—	1	49.9-134.4	—	1	9	30.7-57.6	CSAL
Belgium	—	—	0-6.9% + 8.6	—	3	27	0-23% + 5.8-20.8	A
Denmark	—	1	37.8	—	—	9	0	—
France	—	2	13-26.4%	C	49	29	T_d	SA
Germany (Federal Republic)	—	7	54.6-56.4	—	17	82	0-9% + 30.2-77.6	MA
Greece	—	—	17.0-20.0	C	76	—	..	..
Ireland	—	10	..	—	—	6	..	..
Italy	—	1	0.5-0.6	—	83	7	0	SA
Netherlands	—	10	9.4-6.9% + 8.7	—	—	39	..	A
Norway	—	—	28	—	—	5	0	—
Portugal	—	—	124.6	—	—	6	20.8-177.7	M
Spain	—	—	..	—	25	27	..	S
Sweden	—	1	0-19.30	—	2	8	0	S
Switzerland	—	1	23.2-34.8	—	—	13	7.0-928.0	—
United Kingdom	—	248	0-5.2	—	—	148	T_d	A
Canada	—	20	0-17.1	—	88	1	25.7-128.5	..
United States	—	50	0	—	828	68	28.1-645.0	CA
Japan	77	1	35%	C	129	5	335%	CSL
European Economic Community	—	20	(10.8)	—	152	184	6.0-7.8	..
		OLIVE OIL				TALLOW		
Austria	—	1	0-15%	C	6	1	..	C
Belgium	—	1	3-13%	..	10	16	0.6%	—
Denmark	—	—	0	..	29	1	..	..
France	1	22	12.6-20.0%	C	101	7	11.1%	—
Germany (Federal Republic)	—	2	0-10.9%	..	43	33	0.6%	—
Greece	123	—	4.2	..	2	1	..	—
Ireland	—	...	..	..	6	1	..	..
Italy	321	51	0.20%	..	5	116	0.6%	—
Netherlands	—	—	3-13%	..	15	64	0.6%	—
Norway	—	1	0.05	—	..	1	..	C
Portugal	79	3	1.1-2.9	..	3	1	..	C
Spain	406	—	..	..	14	20	..	—
Sweden	—	—	0	..	8	1	T_v	..
Switzerland	—	2	..	C	4	4	T_v	..
United Kingdom	—	2	0-5%	—	135	70	0-10%	—
Canada	—	1	0-20%	—	87	1	..	..
United States	2	24	7.2-10.5	..	1,609	1	1.9-7.7	—
Japan	—	—	0	C	15	137	..	—
European Economic Community	322	75	17-20%	..	174	236	(2)%	..
		SOYA BEANS				GROUND-NUTS		
Austria	—	2	0	C	—	1	0	C
Belgium	—	84	0	—	—	50	0	—
Denmark	—	279	0	—	—	2	0	—
France	—	111	0	C	—	423	0	CS
Germany (Federal Republic)	—	839	0	—	—	74	0	—

Table 2-10 (*continued*)

Country	Production	Imports	Restraints on imports: Tariff[b]	Restraints on imports: Other[c]	Production	Imports	Restraints on imports: Tariff[b]	Restraints on imports: Other[c]
	SOYA BEANS (*continued*)				GROUND-NUTS (*continued*)			
Greece	—	—	0.9	—	5	—	2.3-4.7	—
Ireland	—	—	..	..	—	—	..	..
Italy	1	92	0	..	12	2	0-5.6%	M
Netherlands	—	279	0	—	—	4	0	—
Norway	—	59	0	—	—	7	0	—
Portugal	—	—	0.3-0.4	..	—	32	..	..
Spain	—	—	..	..	8	—	..	..
Sweden	—	—	0	—	—	1	0	—
Switzerland	—	7	..	C	—	59	..	C
United Kingdom	—	224	5%	—	—	199	10%	—
Canada	174	358	0-0.9	—	—	35	2.1	—
United States	15,134	—	4.4	—	784	—	7.5-15.4	C
Japan	412	1,010	13% + 2.7	C	101	6	0-20%	C
European Economic Community	1	1,405	(0)	..	12	553	(0)	..
	COTTONSEED				SUNFLOWER SEED			
Austria	—	—	0	C	1	—	..	C
Belgium	—	—	..	—	—	2	..	—
Denmark	—	—	0	—	—	—	0	—
France	—	—	0	CS	4	—	..	CS
Germany (Federal Republic)	—	19	0	—	—	22	0	—
Greece	119	28	0.02-0.6	—	3	—	..	—
Ireland	—	—	..	..	—	—	..	..
Italy	13	1	..	M	5	20	..	M
Netherlands	—	—	..	—	—	1	..	—
Norway	—	—	0	—	—	—	0	—
Portugal	—	4	..	..	—	—	..	..
Spain	118	—	..	..	2	—	..	..
Sweden	—	—	0	..	—	—	0	..
Switzerland	—	—	..	C	—	—	..	C
United Kingdom	—	132	0	—	—	—	10%	—
Canada	—	—	0	..	12	—	5%	..
United States	5,042	—	0.7	—	—	—	2.2	—
Japan	—	90	0	C	—	10	..	C
European Economic Community	13	20	(0)	..	9	—	(0)	..
	COPRA				PALM KERNELS			
Austria	—	5	0-0.1	C	—	—	0	C
Belgium	—	20	0	—	—	28	0	..
Denmark	—	38	0	—	—	22	0	..
France	—	86	7%	S	—	95	7%	—
Germany (Federal Republic)	—	221	0	—	—	135	0	—
Greece	—	—	0.3	—	—	1	0.3	..
Ireland	—	4	..	..	—	1		..
Italy	—	16	0	M	—	1	0	
Netherlands	—	101	0	—	—	137	0	—
Norway	—	26	..	—	—	—	0	—
Portugal	—	10	0.3-0.4	..	—	23	..	..
Spain	—	7	..	..	—	3	..	..
Sweden	—	66	0	..	—	—	0	..
Switzerland	—	22	..	C	—	1	..	C
United Kingdom	—	78	10%	—	—	252	10%	—
Canada	—	2	0	..	—	—	0	—
United States	—	316	0	—	—	—	0	—
Japan	—	63	0	C	—	32	0	C
European Economic Community	—	444	(0)	..	—	396	(0)	..

Table 2-10 (*continued*)

Country	Production	Imports	Restraints on imports: Tariff[b]	Restraints on imports: Other[c]	Production	Imports	Restraints on imports: Tariff[b]	Restraints on imports: Other[c]
		PALM OIL				LINSEED		
Austria	—	3	12-15%	—	—	—	0	C
Belgium	—	41	0-11.2%	..	15	29	0	—
Denmark	—	8	0	—	1	4	0	—
France	—	30	0-14%	S	33	112	0-5.6%	CS
Germany (Federal Republic)	—	73	0-21.7%	—	—	7	0	—
Greece	—	—	5.5	—	—	7	0.07-0.13	—
Ireland	—	4	..	..	—	3	..	..
Italy	—	236	0-14%	..	7	13	0	M
Netherlands	—	84	0-11.2%	—	17	102	0	—
Norway	—	2	0.5	..	—	15	0	—
Portugal	—	12	1.1-9.3	—	—	4	..	..
Spain	—	3	..	..	8	2	..	..
Sweden	—	3	0	—	2	1	0	—
Switzerland	—	2	..	..	—	9	..	C
United Kingdom	—	186	..	—	—	146	10%	—
Canada	—	14	0-20%	..	538	2	0.3-0.4	..
United States	—	18	0	..	754	—	2.5	..
Japan	—	14	0-10%	..	4	71	0	C
European Economic Community	—	464	9-14	..	72	263	(0)	..
		COTTON				WOOL		
Austria	—	26	0	C	3	4	0	—
Belgium	—	91	0	C	3	40	0	—
Denmark	—	8	0	—	1	2	0	—
France	—	289	0	C	99	100	0-75%	—
Germany (Federal Republic)	—	314	0	C	20	63	0-0.5%	—
Greece	61	1	..	—	63	2	..	..
Ireland	—	4	..	..	68	4	..	..
Italy	9	200	0-5.6%	—	61	62	0	..
Netherlands	—	77	0	—	7	11	0	—
Norway	—	4	0	C	29	1	0-3%	—
Portugal		52	4.2	CS	49	3	1-10%	—
Spain	59	61	..	C	144	1	..	..
Sweden	—	25	0	—	1	5	0	—
Switzerland	—	38	0-6	—	2	4	0	—
United Kingdom	—	275	0-10%	..	365	207	..	—
Canada	—	73	0	..	22	6	0-21.4	—
United States	2,927	30	0-7.7	C	624	107	24.3-61.2	—
Japan	—	606	0	C	18	97	0	C
European Economic Community	9	971	0	..	190	276	0	—
		JUTE				HARD FIBRES		
Austria	—	6	0-18	—	—	4	0-18	—
Belgium	—	75	0	—	—	29	0	—
Denmark	—	3	0	—	—	22	0	—
France	—	88	0	—	—	65	0	—
Germany (Federal Republic)	—	71	0	—	—	58	0	—
Greece	—	4	0	—	—	4	..	—
Ireland	—	8	0	—	—	4	..	—
Italy	—	51	2.4-2.8%	—	—	14	0-2.8%	—
Netherlands	—	12	0	—	—	41	0	—
Norway	—	1	0-3.5	—	—	4	0	—
Portugal	—	11	3%	—	—	19	2.6%	—
Spain	4	20	..	—	—	6	..	—
Sweden	—	5	0	—	—	7	0	—
Switzerland	—	1	0-15%	—	—	...	0-8%	—
United Kingdom	—	142	0.20%	—	—	95	0-10%	—

Table 2-10 (*continued*)

Country	Production	Imports	Restraints on imports: Tariff[b]	Restraints on imports: Other[c]	Production	Imports	Restraints on imports: Tariff[b]	Restraints on imports: Other[c]
	JUTE (*continued*)				HARD FIBRES (*continued*)			
Canada	—	2	0	—	—	32	..	—
United States	—	47	..	—	—	150	0-1.9	—
Japan	1	45	0	L	—	53	0	L
European Economic Community	—	297	0	—	—	207	0	—
	RUBBER				PETROLEUM			
Austria	—	12	0	—	—	—	0	—
Belgium	—	20	0-4.2%	—	—	6,859	..	—
Denmark	—	7	0	—	—	—	0	—
France	—	133	0	—	1,783	30,658	..	CM
Germany (Federal Republic)	—	145	0	—	5,019	17,210	..	—
Greece	—	3	..	—	—	—	..	—
Ireland	—	4	..	—	—	—	..	—
Italy	—	61	0	—	1,806	26,164	..	A
Netherlands	—	21	0-4.2%	—	1,770	14,595	..	—
Norway	—	5	0	—	—	—	0	—
Portugal	—	5	1.4-79.6	—	—	—	0	—
Spain	—	27	..	—	63	—	..	—
Sweden	—	22	0	—	73	—	0	—
Switzerland	—	6	0.5	—	—	—	0	—
United Kingdom	—	242	0	—	15	39,110	0	—
Canada	—	40	0-5%	—	24,454	16,503	0	—
United States	—	494	0-8.5%	—	358,161	53,513	3-4%	C
Japan	—	162	0	CL	437	20,087	..	—
European Economic Community	—	380	0	—	10,378	95,486	0	—
	ALUMINIUM				BAUXITE			
Austria	63	—	10-15%	—	25	6	..	—
Belgium	—	52	..	—	—	9	..	—
Denmark	—	..	0	—	—	—	..	—
France	192	39	..	—	1,875	48	..	—
Germany (Federal Republic)	152	100	..	—	4	1,109	..	—
Greece	—	—	..	..	886	—	..	—
Ireland	—	—	..	..	—	—	..	—
Italy	74	19	..	—	303	233	..	—
Netherlands	—	13	..	—	—	6	..	—
Norway	144	1	0	—	—	34	..	—
Portugal	—	—	4-7%	..	—	—	..	—
Spain	22	6	..	..	6	17	..	—
Sweden	15	24	0	—	—	7	..	—
Switzerland	35	13	13-27%	—	—	—	..	—
United Kingdom	27	262	0-10%	—	—	358	..	—
Canada	604	4	5%	—	—	2,285	..	—
United States	1,673	196	6-8%	—	1,696	8,488	..	—
Japan	106	13	..	C	—	814	..	—
European Economic Community	418	223	10%	—	2,182	1,405	..	—
	COPPER				COPPER ORE			
Austria	2	17	0	—	2	—	0	—
Belgium	14	219	..	—	—	2	..	—
Denmark	—	5	0	—	—	—	0	—
France	—	207	..	—	1	—	..	—
Germany (Federal Republic)	65	370	..	—	2	32	..	—
Greece	—	3	..	..	—	—	..	..
Ireland	—	—	..	..	—	—	..	..
Italy	—	138	..	—	3	—	..	—

Table 2-10 (*continued*)

Country	Production	Imports	Restraints on imports: Tariff[b]	Restraints on imports: Other[c]	Production	Imports	Restraints on imports: Tariff[b]	Restraints on imports: Other[c]
	COPPER (*continued*)				COPPER ORE (*continued*)			
Netherlands	—	29	..	—	—	—	..	—
Norway	19	4	0	—	15	—	0	—
Portugal	3	10	1-3%	..	2	1	0-3%	..
Spain	26	19	..	..	19	1	..	..
Sweden	18	61	0	—	18	10	0	—
Switzerland	—	35	0	—	—	—	0	—
United Kingdom	6	478	0-10%	—	—	—	0	—
Canada	331	—	4%	—	357	—	0	—
United States	951	399	7-8%	—	857	38	0-27%	—
Japan	154	28	..	C	85	85	..	—
European Economic Community	79	963	0	—	6	34	0	—
	LEAD				LEAD ORE			
Austria	12	11	0-5%	—	5	4	0	—
Belgium	94	18	..	—	—	149	0	—
Denmark	9	20	0	—	—	—	0	—
France	103	62	..	—	18	64	0	—
Germany (Federal Republic)	201	76	..	—	51	84	0	—
Greece	3	—	..	—	13	—	0	—
Ireland	—	—	..	—	—	—	0	—
Italy	45	27	..	—	50	3	0	—
Netherlands	11	47	..	—	—	—	0	—
Norway	—	10	0	—	—	—	0	—
Portugal	—	—	1.7	..	—	—	0-3%	—
Spain	72	—	..	..	74	—	0	—
Sweden	52	9	0	—	54	—	0	—
Switzerland	—	20	0	—	—	—	0	—
United Kingdom	141	194	0-10%	—	2	19	0	—
Canada	141	1	11-22%	—	188	—	0	—
United States	388	220	6-10%	C	231	131	7%	C
Japan	74	23	..	C	41	35	0	—
European Economic Community	454	230	8%	..	119	300	0	—
	TIN				TIN ORE			
Austria	—	1	0-5%	—	—	—	0	—
Belgium	7	3	0	—	—	7	0	—
Denmark	—	4	0	—	—	—	0	—
France	—	12	0	—	—	—	0	—
Germany (Federal Republic)	2	19	0	—	—	1	0	—
Greece	—	—	0	—	—	—	0	—
Ireland	—	—	0	—	—	—	0	—
Italy	—	4	0	—	—	—	0	—
Netherlands	11	7	0	—	—	10	0	—
Norway	—	—	0	—	—	—	0	—
Portugal	1	—	7%	—	1	—	..	—
Spain	1	—	0	—	—	—	0	—
Sweden	—	1	0	—	—	—	0	—
Switzerland	—	1	0	—	—	—	0	—
United Kingdom	28	6	0	—	1	26	0	—
Canada	—	4	0	—	—	—	0	—
United States	11	42	0-9%	—	—	10	0	—
Japan	2	10	0	—	1	—	0	—
European Economic Community	20	45	0	—	—	18	0	—

Table 2-10 (*continued*)

Country	Zinc: Production	Zinc: Imports	Zinc: Restraints on imports — Tariff[b]	Zinc: Restraints on imports — Other[c]	Zinc Ore: Production	Zinc Ore: Imports	Zinc Ore: Restraints on imports — Tariff[b]	Zinc Ore: Restraints on imports — Other[c]
Austria	12	6	0-2%	—	6	6	0	—
Belgium	239	7	..	—	—	529	..	—
Denmark	2	11	0	—	—	—	0	—
France	153	25	..	—	16	123	..	—
Germany (Federal Republic)	191	123	..	—	114	72	..	—
Greece	—	4	..	—	15	—	..	—
Ireland	—	—	..	—	—	—	..	—
Italy	77	11	..	—	132	1	..	—
Netherlands	36	12	..	—	—	43	..	—
Norway	47	1	0	—	10	36	0	—
Portugal	—	—	0-1%	—	—	—	0-3%	—
Spain	40	—	..	—	87	—	..	—
Sweden	—	29	0	—	75	—	0	—
Switzerland	—	22	0	—	—	—	0	—
United Kingdom	81	179	2-10%	—	—	92	0	—
Canada	237	1	2.1	—	384	—	0	—
United States	793	122	7-19%	C	401	415	13%	C
Japan	184	18	..	—	156	63	..	—
European Economic Community	696	178	7%	C	262	767	0	—

Source: United Nations, *Commodity Trade Statistics*, part I, Imports January-December, for the years 1958 to 1960, Statistical Papers, Series D, volumes VIII to X, No. 4, *World Energy Supplies, 1956-1959*, Statistical Papers, Series J, No. 4; Food and Agriculture Organization of the United Nations, *Production Yearbook, 1961, Trade Yearbook, 1961* (Rome); General Agreement on Tariffs and Trade, Committee III—Expansion of Trade, Various mimeographed documents; Commonwealth Economic Committee, *Dairy Produce, 1963, Plantation Crops, 1963, Grain Crops, 1962, Vegetable Oils and Oilseeds, 1962, Industrial Fibres, 1962 and Tropical Products Quarterly* (London); United States Bureau of Mines, *World Petroleum Statistics* for the years 1958 to 1960 (Washington, D.C.); United States Department of Agriculture, *Foreign Agriculture Circular* FG 11-62, FG 16-62, *Agricultural Policies of Foreign Governments, United States Import Duties on Agricultural products, 1959* (Washington, D.C.; Political and Economic Planning, *Atlantic Tariffs and Trade* (London, 1962).

[a] The production and import data are annual averages 1958-1960 in thousands of tons; the barriers are those in operation early in 1962. The figures and symbols representing these barriers are intended to be illustrative only: they do not take account of changes that may have occurred during the year or of various taxes other than customs duties on transactions involving the commodities in question, or changes in import regulations. The significance of a quantitative system of control depends not only on its nature but also on the manner of its administration; thus, a system of "licensing" may involve anything from nominal to rigorous restriction, while what is called "state trading" may differ widely from country to country, both in form and in impact. A summary table of this nature, therefore, can do no more than provide an impressionistic view of what is a vast, intricate and ever-changing complex of commercial policy measures.

[b] Unless otherwise indicated, rates are specific, in United States cents per kilogramme; *ad valorem* duties are indicated as percentages (%); suspensions of duties are not indicated, neither are surcharges that may be levied from time to time. The symbol T indicates a fixed schedule of duties, T_v a variable duty, T_d a discriminatory or preference schedule. Parentheses indicate target rates, not yet in operation. Tariff rates apply to the unprocessed commodity; processed items are generally subject to higher rates. Where a range is indicated, the lower limit is for the least processed form of the commodity from the most favoured trading partner; the upper limit usually applies to imports from other sources but in some cases it reflects a quality or processing differential.

[c] The symbol indicates the general nature of the non-tariff restraint:

C—quantitative restriction, however administered;

L—licensing arrangement, usually but not necessarily under a quota system;

S—state trading or trading by an authorized monopoly;

M—mixing regulation setting ratios of imports to domestic product;

P—prohibition, temporary, seasonal or permanent;

A—bilateral or other trade agreement, usually involving an import quota.

[d] A system of control by variable levy, similar to that adopted for the other cereals, has been referred by the European Economic Community Council of Ministers to a group of experts for consideration.

long staple, and so on. Nevertheless, the existence of an indigenous source of the commodity—even if this is of a different type or grade—almost invariably exercises a considerable influence on the nature and magnitude of the restraints on imports practised by individual countries.

A similar rationale lies behind the general tendency for the magnitude of the restraint on imports to vary directly with the degree of processing that the commodity has undergone. In this case it is a domestic processor or manufacturer rather than a domestic primary producer who is being protected. The form of restraint reflects this difference: while most primary product support programmes require quantitative control over supplies, most industrial or processing protection can be accomplished by a relatively simple gradation of duty on the import tariff.

(a) *Competitive imports*

This commodity category includes most of the basic foodstuffs. This reflects not only the fact that the industrial countries lie broadly within the temperate zone and are generally well endowed for the production of the major cereals and livestock products, but also the

importance that continues to attach to agriculture—in political and strategic as well as economic terms—even in countries that are highly industrialized. There are a number of metals—particularly aluminium, lead and zinc—which also belong to the category of competitive imports. Though trade in these items raises similar policy issues in a number of countries, the measures that have been adopted are generally simpler than those that have grown up in agriculture; hence, for ease of exposition they will be discussed, along with the less competitive metals, in the third group of commodities.

In the case of the major *cereals* entering international trade, quantitative controls over imports are almost universal, though their mode of operation differs considerably from country to country. In most cases such control is inseparable from the domestic system of support. Whether it is accompanied by a duty depends on the way the trade is organized: where distribution is centralized—in a state trading concern, as in the case of wheat in France and Italy, for example —price differences between domestic and imported cereal are absorbed in the financial accounts of the body in question; where private traders import under licence or quota, an equalization duty is generally levied to raise the import price to the domestic support level. In Japan, however, private importers who purchase the licensed quantities of wheat and barley abroad—import quotas being fixed semi-annually in the light of domestic production and foreign exchange availabilities—sell them to an official food agency for internal distribution.

The major exception to this general use of quantitative controls is the practice of the United Kingdom. The largest of all the cereal importers, the United Kingdom supports its domestic wheat and barley producers by means of a system of cash "deficiency payments", making good the difference between realized market prices and minimum target prices negotiated periodically between Government and farmers. Imports enter freely and the internal prices approximate world market prices. The only constraint is an informal mixing arrangement under which millers and compounders agree to absorb all the locally produced grain.

In the EEC, trading arrangements for all the cereals, other than rice, are currently in the first phase of the transition towards the complete unification of member country policy—to be attained by 1970. The country control and tariff system indicated in table 2-10 has been superseded by a system of variable import levies designed to equalize import prices and internal target prices (or the support or "intervention" prices) to which they are related.[9] The target prices and levies differ from country to country (*see* table 2-11) but as internal target prices move towards unification—beginning in 1963/64—the levies on inter-trade are to be steadily reduced and the levies on cereals from outside will also converge.

The key variable in the EEC system, as in other cereal economies, is the intervention price which sets a floor for the domestic market. This is the principal determinant not only of the price structure for each cereal but also of the amount that is likely to be consumed within the country and the volume of local production. In general, the higher the intervention price, the less will be the import demand. It is for this reason that the pattern of trade in the major cereals in the years immediately ahead will be greatly influenced by the direction in which EEC target prices are moved—whether towards the French support level (a sixth to a third above the world market price in 1962) or towards the German support level (about two-thirds above the world market price in 1962).

Many of the factors that influence trade in cereals also influence trade in *sugar*. In most of the industrial countries beet farming is integrated into the structure of land use and agricultural production, and domestic

[9] The price relationships are as follows:
Variable import levy = minimum import or "threshold" price — world market price (adjusted for certain specified quality differentials);
Threshold price = "target" price — freight and marketing costs between port of entry and target price area;
Intervention price = 90-95 per cent of target price.
Target prices and hence threshold prices (and possibly the levies) rise steadily during the season to allow for interest, storage and other time-related charges.

Table 2-11. European Economic Community: Estimated Price Structure for Wheat and Barley, August 1962[a]

(Dollars per ton)

Cereal and item	*Belgium*	*France*	*Germany (Federal Republic)*	*Italy*	*Netherlands*
Wheat					
A Target price, domestic wheat	96	98	118	113	92
B Freight (market to port)	—	1	1	4	1
C Quality adjustment to EEC standard	—	—	3	—	—
D Threshold price for intra-trade (A — B + C)	96	97	120	109	91
E EEC preference	1	1	1	1	1
F Threshold price for other imports (D + E)	97	98	121	110	92
G Landed price, c.i.f. (Hard Red Winter No. 2)	67	67	67	67	67
H Quality adjustment to EEC standard	8	8	7	8	8
I Adjusted price (G — H)	59	59	60	59	59
J Levy (F — I)	39[b]	39	61	51	34[b]
K Import price (G + J)	106	106	128	118	101
L Tariff, 1961	[c]	[d]	45[e]	[d]	3[e]
M Support price, 1961	94	83	107	104	85
N Intervention price, August 1962	92	86	111	109	88

Table 2-11 (*continued*)

Cereal and item	Belgium	France	Germany (Federal Republic)	Italy	Netherlands
Barley					
A Target price, domestic barley	77	80	107	...	78
B Freight (market to port)	—	1	1	...	1
C Quality adjustment to EEC standard	—	—	—	—	—
D Threshold price for intra-trade (A — B + C)	77	79	106	62	77
E EEC preference	1	1	1	1	1
F Threshold price for other imports (D + E)	78	80	107	63	78
G Landed price, c.i.f. (United States Western No. 2)	58	58	58	58	58
H Quality adjustment to EEC standard	2	1	1	2	2
I Adjusted price (G — H)	56	57	57	56	56
J Levy (F — I)	22	23	49	7	22
K Import price (G + J)	80	81	107	65	80
L Tariff, 1961	16	[d]	36	[f]	14
M Support price, 1961	75	66	90	—	75
N Intervention price, August 1962	73	68	96	...	74

Source: Adapted from United States Department of Agriculture, *Foreign Agriculture Circular* FG 11-62.

[a] All prices have been rounded to the nearest dollar.

[b] Part of the levy is rebated to millers.

[c] Control by mixing regulation.

[d] Quantitative control by government agency.

[e] Plus a mixing regulation: 75 per cent domestic/25 per cent foreign in the Federal Republic of Germany; 40/60 in the Netherlands.

[f] *Ad valorem* duty of 10 per cent, plus seasonal restriction on imports from dollar sources.

sugar prices are sustained by support measures or by restriction of imports, usually by a licensing or quota arrangement. As a result, most industrial countries, especially in western Europe, are largely self-sufficient; in the case of the EEC, for example, net imports provide less than 10 per cent of total consumption. The largest net importer in the EEC is the Netherlands which, as a traditional sugar trader, places no quantitative restraints on imports but guarantees prices for producers for the domestic market. Domestic supports and absence of quantitative restraints also characterize the situation in Canada, a substantially larger importer.

By far the largest markets among the industrial countries are those provided by Japan, the United Kingdom and the United States: these countries import far more sugar than they produce—under a price support system in each case. In the light of domestic supplies and foreign exchange availabilities, Japan fixes a global import quota each year, part of which is allocated to China (Taiwan) under a bilateral agreement. The bulk of United Kingdom imports originates through a number of similar official bilateral contracts, made under the Commonwealth Sugar Agreement, though in this case the contracts are not associated with any quota limitation: they represent part of a stabilization policy and the sugar is actually resold to traders and refineries at the current market price, becoming subject—along with all other sugar imports—to an import levy, the proceeds of which go into the stabilization account. The price at which sugar is sold to United Kingdom consumers is thus the sum of world market price and import levy; the prices paid to domestic beet growers on the one hand and Commonwealth cane growers on the other are related to this only through periodic renegotiation of the stabilization contracts.

In the United States, under the Sugar Act of 1962, estimated sugar requirements are distributed annually in the form of quotas to domestic producers (about 60 per cent) and foreign producers (about 40 per cent). The subsidy paid to the former is financed by an excise tax on all sugar sales. The distribution is based in the first instance on a consumption figure of 9.7 million short tons of which about 3.9 million tons are allocated in import quotas to twenty-five foreign suppliers, 2.4 million on a "permanent" statutory basis (at premium prices) and about 1.5 million on a first-come-first-served basis (at world market prices).[10] The sugar imported under this global quota is subject to a variable levy designed to reflect the difference between world market price and United States domestic price. The premium above world

[10] This uncommitted, global quota of 1.5 million short tons represents rather less than half of the quota formerly allocated to Cuba; about 1.7 million short tons of this previous quota has been distributed among other suppliers. The addition of a sizable amount of this nature to the free market might be expected to broaden—and perhaps help to stabilize—the ordinarily very narrow market. The extent to which this may happen, however, is likely to be influenced by a linking of such purchases to other considerations: it is United States policy to give preference to western hemisphere suppliers and to those who are prepared to take "surplus" commodities in exchange. In the second half of 1962, about 700,000 tons of quota went to countries undertaking to use some proportion of the proceeds for the purchase of United States agricultural commodities. (*See* Food and Agriculture Organization of the United Nations, "Thirteenth Report of the Consultative Subcommittee on Surplus Disposal to the Committee on Commodity Problems" (document CCP 63/12).)

price earned on sugar under statutory quotas is due to be progressively reduced—by 10 per cent a year—in the case of all foreign suppliers except the Philippines (basic quota of just over a million short tons) during the first three-year currency of the present Act. Unfilled domestic quotas are to be redistributed among foreign suppliers. Increments in requirements are to be allocated on the basis of 65 per cent to domestic producers and 35 per cent to foreign producers.

As in the case of the cereals, the key policy variable affecting international trade in sugar is the official support price to producers in the industrial countries. In both cases it has been high enough in recent years to induce a fairly high degree of self-sufficiency in western Europe. The sugar market, however, is distinguished by the relatively wide geographic spread of the quota systems operated by the United Kingdom and the United States (*see* table 2-12).

Table 2-12. Quotas Allocated under the Commonwealth Sugar Agreement and the United States Sugar Act, as amended in 1962

(Thousands of tons)

Item and country	Commonwealth Agreement quotas, 1962			United States Sugar Act quotas		
				Up to 30 June 1962		Amendment July 1962, basic
	Basic[a]	Portion at negotiated price[b]	Additional, at "world" price[c]	Basic	Additional[d]	
Domestic[e]	747.1			4,705.1		5,270.7
Argentina	—	—	—	—	—	[f]
Australia	609.6	318.5	51.5	—	81.6	36.2
Brazil	—	—	—	—	350.6	163.5
Belgium	—	—	—	0.2	2.1	0.2
British Honduras	25.4	19.1	2.1	—	—	9.0
British West Indies and British Guiana	914.4	680.6	77.4	—	250.8	81.9
Canada	—	—	—	0.6	1.1	0.6
China (Taiwan)	—	—	—	3.4	198.0	31.8
Colombia	—	—	—	—	68.9	27.2
Costa Rica	—	—	—	3.4	31.2	22.6
Cuba	—	—	—	2,910.6	—	1,482.5[f]
Dominican Republic				87.4	595.1	172.2[f]
East Africa	10.2	5.3	—			
Ecuador	—	—	—	—	32.6	22.6
El Salvador	—	—	—	—	15.4	9.2
Fiji Islands	172.7	127.4	14.6	—	4.5	9.0
French West Indies	—	—	—	—	72.6	27.2
Guatemala	—	—	—	—	20.0	18.2
Haiti	—	—	—	6.9	34.8	18.2
India	—	—	—	—	249.5	18.2
Ireland	—	—	—	—	4.5	—
Mauritius	477.5	355.7	40.4	—	—	—
Mexico	—	—	—	72.7	860.1	172.2
Netherlands	—	—	—	3.6	8.1	9.0
Nicaragua	—	—	—	14.3	61.7	22.6
Panama	—	—	—	3.4	8.3	13.6
Paraguay	—	—	—	—	4.5	9.0
Peru	—	—	—	98.4	717.2	172.2
Philippines	—	—	—	889.0	610.7	952.5
South Africa	[g]	[g]	17.2	—	—	18.2
United Kingdom	—	—	—	0.5	0.9	0.5
FOREIGN QUOTA TOTAL	2,209.8[h]	1,506.6	203.2	4,094.6	4,283.2	3,528.9[i]

Source: Statistical Office of the United Nations, *Monthly Bulletin of Statistics;* International Sugar Council, *Statistical Bulletin* and *Sugar Yearbook, 1961* (London); United States Department of Agriculture, *Foreign Agriculture Circular* FS 4/62, August 1962.

[a] Subject to the reallocation of unused portions.

[b] Excluding an allowance for freight and insurance at pre-war rates, about £44.9 per long ton, equivalent to 5.79 cents per pound.

[c] Average world free market price in 1962, 2.98 cents per pound.

[d] Redistribution of the Cuban quota.

[e] 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.

[f] Supplemental legislation recommended an allocation of 18,200 tons to Argentina and an additional allocation of 118,000 tons to the Dominican Republic, leaving about 1,347,000 tons of the former Cuban allocation for "global" distribution.

[g] South Africa ceased to be a party to the Commonwealth Sugar Agreement in December 1961.

[h] Total imports from all countries in 1962 amounted to 2,315,000 tons.

[i] Including 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 5.93 cents per pound.

The effects of high price supports have been even more marked in the case of the dairy products, particularly *butter*. Not only have most industrial countries become more or less self-sufficient, but many of them, having been unable to absorb the output of domestic butter producers at the determined prices, have become occasional or even regular exporters. Since among the industrial countries only the United Kingdom has maintained an open market—supporting its own dairy industry by deficiency payments when market prices drop below negotiated floor levels—good seasons have given rise to concentrated shipping of surpluses and precipitous declines in price. At the instance of traditional suppliers, the United Kingdom in 1962 invoked its own anti-dumping legislation and under the auspices of the General Agreement on Tariffs and Trade (GATT) organized a system of quotas. Imposed for the 1962/63 season, these quotas, increased by 5 per cent, have been extended to 1963/64.[11]

International trade in *meat* is smaller in relation to production than in the case of most other primary commodities, but, in the wake of rising incomes and rising consumption in the industrial countries, it has been one of the most rapidly expanding flows in recent years. As the local livestock industry is supported and the internal price level regulated in most industrial countries, however, trade in meat is generally subject to controls. In western Europe most countries operate licensing systems through which imports are geared to the domestic supply and price situation. Some of these discriminate against particular sources—for health, currency or other reasons or because of separate bilateral trade arrangements—and some provide the means of instituting a complete embargo on imports. Most countries also have sanitary restraints which impinge on the suppliers from areas in which such diseases as hog cholera, bovine tuberculosis and swine fever are endemic. The United States bars imports of meat—even in salted form—from countries in which there is foot and mouth disease.

Among the major countries, the freest markets for meat imports are provided by the United Kingdom and the United States. Apart from veterinary restrictions and certain quota arrangements between the United Kingdom and various eastern European suppliers, there are only relatively low tariff obstacles to entry. The livestock industry is not officially supported in the United States and is supported by deficiency payments in the United Kingdom. Italy has also constituted an important market in recent years, though since 1959, efforts to build up domestic beef production have entailed the replacement of ordinary duties by more stringent quantitative controls. These are now being subsumed in a new EEC system of restraints, based on the elimination (over a period of three years) of internal tariffs and the replacement of national tariffs by a common external tariff of 20 per cent, plus variable import levies in the case of fresh and chilled beef and veal, to equalize "threshold" or import prices with internal "target" prices. In the case of frozen beef and veal, a system of direct licensing through import certificates will be instituted.

[11] The 1962/63 quotas were distributed as follows: New Zealand, 158,500 tons; Denmark, 93,000 tons; Australia, 63,000 tons; Poland, 16,200 tons; Netherlands, 14,200 tons; Ireland, 12,200 tons; Finland, 11,700 tons; Argentina, 9,700 tons; Sweden, 4,700 tons; France, 2,400 tons; South Africa, 2,000 tons; Austria, Kenya and Norway, 1,700 tons each.

(b) *Non-competitive imports*

In contrast to the policies governing trade in the temperate farm products discussed in the previous section—which are intimately bound up with the whole complex of agricultural measures as these have evolved over the years—trade policies affecting the essentially "tropical" products are relatively simple. Quantitative restraints are fewer and, where they are used, their purpose is generally to direct trade away from a less favoured source (perhaps to conserve a scarce currency) and towards a more favoured source (usually in implementation of some bilateral agreement). Tariff restraints generally have a fiscal rather than a protective purpose, though the tariff structure is usually characterized by rates which rise with the amount of value added to the crude product—designed to afford protection to a local processing industry.

In the case of the *beverage crops*, very few industrial countries impose quantitative restrictions on imports. Japan has a quota system for coffee and tea imports, Sweden licenses cocoa imports and Denmark and France control coffee imports. But the main impediment to trade lies in the range and magnitude of tariff and internal fiscal charges. Almost all the industrial countries, with the notable exception of the United States, impose customs duties on beverage crop imports even in their raw bean or leaf form. In 1962, for cocoa, these ranged up to 29 per cent *ad valorem* (Finland) and up to the equivalent of 4 cents per pound specific (Portugal). For coffee, they ranged up to 35 per cent *ad valorem* (Japan) and up to the equivalent of 11 cents per pound specific in the Federal Republic of Germany (22 cents per pound, caffeine-free). For tea, they ranged up to 60 per cent *ad valorem* (Austria) and in specific terms up to the equivalent of 51 cents per pound in Italy and $1.13 per pound in Portugal. When to these duties are added the various revenue taxes levied internally, the over-all effect is significantly price-raising and hence—as pointed out above—an appreciable drag on rates of consumption. Recent elasticity studies suggest that in the high-income industrial countries a 10 per cent reduction in retail price might be expected to induce a 2-3 per cent increase in the consumption of coffee or tea and a somewhat greater increase in the case of cocoa.[12]

Much the same is true—though on a much smaller scale—in the case of mangoes, pineapples, bananas and other tropical fruit: tariffs are widespread and their effect is to restrict consumption and raise revenue from a tax whose incidence falls partly or mainly on producers in developing countries. From the point of view of current export earnings, the principal item in this group is *bananas*, exports of which now average about $500 million a year. Expansion depends very largely on developments in western Europe. In North America, where bananas have long had free entry per capita consumption is no greater now than it was fifty years ago, whereas in western Europe it has been rising rapidly, notwithstanding various restraints on imports. The increase has been most rapid in the countries in which entry is freest—Austria, Belgium, Denmark, the Federal Republic of Germany, the Netherlands, Norway, Sweden and Switzerland. It has been slower in countries such as France, Italy, Portugal, Spain and the United Kingdom which have practised import control, chiefly through a preferential tariff system which has tended

[12] Food and Agriculture Organization of the United Nations, *Commodity Bulletin*, Nos. 27 and 32 (Rome).

to gear the expansion in imports to the expansion in supplies from specific sources, principally dependent or formerly dependent territories.

The marked price differences that have prevailed until recently in the countries of the European Economic Community—bananas being available in the Federal Republic of Germany at a retail price half that obtaining in Italy, for example—will gradually come to an end under the arrangements now in train. These involve a common external tariff of 20 per cent to be attained by 1970.[13] The increase in duty will tend to slow down rates of increase in consumption in Belgium and the Netherlands, as well as the Federal Republic of Germany.

Among the *non-apparel fibres,* the two categories that are of principal concern to the developing countries are jute, mesta and allied materials on the one hand and abaca and the agaves, such as sisal and henequen, on the other. In their raw form—as unspun line fibre and tow—these fibres are generally granted free entry into the industrial countries. It is in their processed forms that they begin to encounter obstacles. The cordage industry is protected in varying degree in most countries so that in the form of twines, ropes and mattings the hard fibres encounter tariffs almost everywhere. The jute textile industry is not as widespread, but where it does exist—as in Belgium, France, the Federal Republic of Germany and the United Kingdom—the range of duties tends to widen: the rates are higher for yarn than for fibre, for woven material than for spun, for made-up cloth, such as gunnies, than for yarn.

(c) *Semi-competitive imports*

The commodities brought together in this category face varying degrees of competition in the industrial countries, from domestic producers in some cases, from producers of substitute items in other cases. The resultant diversity in marketing conditions makes for considerable differences in commercial policy both among countries and in respect of different commodities.

One such commodity is *citrus fruit.* Produced in large quantities in Japan, the United States and southern Europe, citrus fruit has nevertheless been a relatively dynamic export from the developing countries in the post-war period. This reflects, in part, rising consumption and liberal import policies in other western European countries, notably the Federal Republic of Germany and the Netherlands. The rate of increase may be slowed down as the common agricultural policy of the EEC comes into effect, for this involves not only a relatively high external tariff but also a system of variable levies designed to raise import prices to the level of internal "reference" prices, based on established markets in each member country.

In the United Kingdom, which is also a major importer, Commonwealth citrus fruit enters free but there is a 10 per cent duty on imports from other sources. In the United States duties are specific; with the rise in prices in the post-war period their incidence has declined, but it can be raised to prohibitive levels if imports in any one year exceed 5 per cent of domestic production in the preceding year. In fact, imports have remained at a negligible fraction of domestic production.

In the case of *tobacco* the industrial countries have absorbed steadily increasing quantities from the primary exporting regions, notwithstanding a considerable range of obstacles to trade, partly protective, partly revenue-raising. In many countries—including Austria, France, Italy, Japan, Spain and Sweden—quantitative import controls are operated by state monopolies. Many countries have entered into bilateral arrangements with suppliers, often involving specific quotas and sometimes involving preferential rates of duty: the United Kingdom has such an arrangement with the Federation of Rhodesia and Nyasaland, the United States with the Philippines and Turkey. France and Italy have undertaken to purchase more tobacco from Greece which became associated with the EEC in November 1962.

Within the EEC, internal duties—almost all specific—are being systematically reduced and this should benefit Italy, the main EEC producer, as well as Greece and Madagascar and several other associated countries. The common external tariff has been fixed at 28 per cent, but as minimum and maximum specific duties have also been set, higher-priced tobaccos will tend to be taxed at lower *ad valorem* rates: the minimum duty of $29 per 100 kilogrammes will apply to tobacco costing less than $96.7 per 100 kilogrammes and the maximum duty to tobacco costing more than $140 per 100 kilogrammes. Special qualities costing more than $280 per 100 kilogrammes—such as cigar wrapper leaf—are subject to a 15 per cent duty with a maximum of $70 per 100 kilogrammes.

While the 4 cents per pound spread in duty between the lower and higher-priced tobacco may be of some advantage to the developing countries—most of whose exports are concentrated at the lower end of the value scale[14]—the main effects of developments in the EEC are likely to be those flowing from the trading policies of the state purchasing agencies, the taxes on cigarettes and other finished products and, perhaps most of all, the reaction of domestic producers, in the associated countries as well as in the Community, to the enlargement of their protected market.

Commercial policies in the field of *vegetable oil-seeds and oils* have been generally protective in the industrial countries, and though the commodities or activities to be protected differ from country to country, the fact that there is a high degree of substitutability among the seeds and the oils has led to certain common features in tariff structures. Subject to preferences in some instances, most seeds are admitted free, providing as they do the principal raw material of the crushing mills and the compounding industry which are important activities in many parts. But where local seed growing is significant, it is usually granted some form of protection. In France, for example, quantitative control is exercised over imports of seed and oil (other than palm products) as part of the state regulation of trade and prices; and an *ad valorem* duty is levied on several types of seed. In Italy, imports are licensed and are conditional on their being mixed with material from government stocks. There are specific duties in Canada,

[13] 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—but only on consultation with the associated States, from which most of the Community's supply is expected to be drawn.

[14] In 1961, average unit values of exports ranged from the equivalent of $64.8 per 100 kilogrammes in India and $98.5 in Turkey to $123.4 in the Federation of Rhodesia and Nyasaland, $125.8 in Greece and $171.9 in the United States.

Greece and Portugal and, at a generally higher level, in the United States, where the tariff on such locally produced items as ground-nuts and flaxseed is more or less prohibitive.[15] And even in countries in which seeds have free entry there are often duties on the expressed oils: these usually vary with the degree of refinement, prepared edible oils being subject to the highest rates in most instances. (*See* table 2-13.)

The EEC is moving in three stages towards a common external tariff of zero on seeds and 10-20 per cent on oils, which is to be attained by 1970. The first

[15] Under the Agricultural Adjustment Act, ground-nut imports are limited to an annual quota of about 800 tons, shelled weight.

Table 2-13. Oil-seeds and Oils: Commercial Policy Measures in force in Major Importing Countries, 1962

Country	*Tariff[a] on*		*Fiscal charges[d]*	*Quantitative restrictions[d]*
	Oil-seeds[b]	*Vegetable oils[c]*		
Austria	0 Copra S.0 to 0.2	Industrial 0 Edible A. 12 to 15 Olive A. 0 to 75	x	x
Belgium-Luxembourg-Netherlands	0	A. 0 to 11.5 Olive A. 3.5 to 13	x	x
Denmark	0	Edible A. 4 to 5 Olive 0 Industrial 0	x	x
France	Edible A.0 Lauric acid A.7 Industrial A.0 to 5.6	Edible A.16.2 Sunflowerseed A.0 Lauric acid A.13.5 Industrial A.0 to 4	x	x
Germany (Federal Republic)	0	A. 0 to 12.9	x	x
Greece	S.0.01 to 2.1	Edible S.1.9 to 2.9 Industrial S.0.5 to 2.5	x	x
Italy[e]	A. 0 to 5.6	Edible A. 18 to 35 Lauric acid A.0 to 25 Industrial A. 18 to 25	x	x
Norway	0	S. 1.0 Olive S. 0.1	x	
Portugal	S. 0 to 0.9	S. 2.5 to 50.4 Palm S. 0.5 to 5.0	x	
Sweden	0	0 Linseed S. 0.6 to 0.8	x[f]	x
Switzerland	A. 0.1	A. 0.8 to 17.8	x	x
United Kingdom	A. 0 to 10	A. 0 to 15		
Canada	S. 0 to 3.8 Cottonseed A. 0 to 10	A. 0 to 25 Linseed S. 1.2 to 1.6		x
United States	A. 0 to 49 Soya beans S. 1.7 to 2.0 Cottonseed S. 0.33	A. 0 to 45 S. 0 to 4.7	x	x
Japan	A. 0 to 20 Soya beans S. 0 to 6	Industrial and lauric acid A. 0 to 15 Edible S. 0 to 3.8	x	
European Economic Community	0	Edible A. 10 to 20 Lauric acid and industrial A. 0 to 14		

Source: Bureau of General Economic Research and Policies of the United Nations Secretariat, based on information communicated to General Agreement on Tariffs and Trade.

[a] *Ad valorem* duties are prefaced by A and quoted in percentages; specific duties are prefaced by S and quoted in equivalent United States cents per pound.

[b] Brussels nomenclature 12.01.

[c] Brussels nomenclature 15.07.

[d] Existence of measure is indicated by x; application is sometimes selective.

[e] Some of the duties are subject to a 10 per cent reduction.

[f] Including an import fee on some oils.

(30 per cent) adjustment was made in 1962. The most difficult aspect of this is the dismantling of the support schemes operated by France and Italy, particularly those portions guaranteeing export prices of ground-nuts and palm oil from the associated countries in Africa. The bulk of the aid funds being put at the disposal of the West African countries under the recently negotiated convention is intended to ease the transition from the supported prices to prices nearer the world market level. In the case of palm oil, this will begin in 1963/64 and in the case of the major ground-nut producers in 1964/65. The dimensions of the change are not yet clear since EEC's domestic seeds and oils policy has not yet been worked out. This is complicated by the interrelations between oil prices, margarine and the supports to be afforded to butter and the local dairy industry.

In the case of the *apparel fibres,* the commercial policy of the industrial countries is shaped chiefly by the fact that cotton and wool are basic raw materials for major industries: restraints are generally absent and duties graduated in accordance with degree of processing, raw fibre being admitted free in most cases.

In western Europe, the major importing region, there are relatively few quantitative controls on trade in these fibres. In the case of cotton, Austria and Portugal apply quotas—the former on a selective basis, the latter through a central buying agency which takes into account supplies from the Overseas Provinces—and Belgium, France, the Federal Republic of Germany, Norway and Spain operate licensing systems which are not currently restrictive. Apart from the non-Commonwealth element in the United Kingdom tariff, the only duties now being levied are in Portugal and Switzerland. In the case of wool, although domestic production is relatively larger and wider spread, trading régimes have remained fairly liberal: quantitative controls are few and duties generally modest. In the EEC, wool—like cotton—has a zero tariff.

In Japan, the buying of cotton and wool is controlled as part of the general problem of foreign exchange allocation. Since the textile industry is a major manufacturing activity and since almost all its raw material is imported, economic policy has usually involved the licensing of all the cotton and wool requirements consistent with the level of activity of local mills.

Among the industrial countries the principal restraints on trade in cotton and wool are those operating in the United States, where both cotton growing and wool production are protected from external competition. There is a specific duty—ranging from 1.75 to 7 cents per pound—on all raw cotton of 1⅛-inch staple or over, but the main control is exercised through quotas: a limit of 6,600 tons is placed on imports of cotton of under 1⅛-inch staple and of 20,800 tons of cotton of 1⅛-inch staple and over. (*See* table 2-14.) In the case of wool—of which the United States is a large net importer[16]—domestic producers are subsidized from the proceeds of duties on imports of both raw wool and woollen manufactures. The range of duties is a wide one: in general, the finer the wool the higher the tariff. If used for floor coverings and certain other non-apparel purposes, unscoured coarse wools (since 1958 those below a count of 46) are admitted free. This has permitted some expansion in exports of crossbred wools, particularly from South America, but the principal operative duty on apparel wools of a count higher than 44 continues to stand at 25.5 cents per pound, measured clean.

Table 2-14. United States Cotton Production, Import Quotas, Imports Under Quota and Other Imports, 1961/62

(Thousands of bales of 500 pounds gross)

Type and staple length of cotton	Quotas and imports under quota: Kind of quota	Amount of quota	Actual imports	Production
Upland, under 1⅛"	Country	30.2	27.3	13,884
Long staple, 1⅛" or more	Global	95.1	95.6	564
Total quotas		125.3	122.9	
Harsh or rough, of less than ¾"	—	—	30.0	—
TOTAL, above			152.9[a]	14,448

Source: United States Department of Agriculture, *Foreign Agriculture Circular* FC 22-62, December 1962.

[a] Distribution (in thousands of bales): United Arab Republic, 62.7; Mexico, 29.0; Peru, 22.0; India, 20.0; Pakistan, 11.6; Burma, 3.9; Brazil, 1.3.

In its crude form, *natural rubber* moves freely into almost all the industrial countries; as with other raw materials, however, duties become payable on an increasing scale as the degree of processing advances.

This gradation of impediment is also the dominant feature of trade in the major minerals: crude ores and crude petroleum generally move freely into the industrial countries, refined products face tariff barriers of dimensions which tend to vary with the status and strength of domestic producers.

Among the major *non-ferrous metals,* tin—not being mined in any of the industrial countries—is the only one that is entirely free of national quantitative controls and subject to duties in only a few countries, most notably the United States (up to 9 per cent). Copper also moves fairly freely: the only quantitative restraint is that arising from the licensing system practised in Japan and the principal tariff restraint that arising from duties on ore and metal imported into the United States.

For the other metals—aluminium, lead and zinc—the trading régime is subject to greater impediments, reflecting the existence of more vulnerable domestic producers in a number of countries. Japan exercises quantitative control over imports of all of these metals; in western Europe, tariff restraints are more general. In the United Kingdom, non-Commonwealth supplies are liable to a 10 per cent duty; the external tariff of the EEC is 7 per cent for zinc, 8 per cent for lead and 10 per cent for aluminium (all in unwrought form), and in Austria and Switzerland, the aluminium tariff is appreciably higher. A comparable range of duties prevails in Canada and the United States, but more important in the case of lead and zinc are the quantitative restrictions operating in the United States since 1958: these have limited imports of both ore and metal to the average rates recorded in the period 1953-1957, by means of quotas established for each of the supplying countries. (*See* table 2-15.)

In the case of petroleum, the pattern of much of the world's trade is directly influenced by decisions of the integrated companies which control the mining, refining and distribution of a large proportion of the total international supply. There are relatively few official

[16] In 1961 the ratio of imports to domestic production in the United States was about one per cent in the case of cotton and 53 per cent in the case of wool; average duty on cotton was 5 per cent, on wool 27 per cent.

Table 2-15. Lead and Zinc: United States Import Quotas, 1961

(Thousands of tons metal content)

Item and country	*United States annual import quota*	*Total exports of the countries with United States quotas*
Lead		
Ores and concentrates		
Peru	29.3	64.1
South West Africa	27.0	72.2
Canada	24.4	64.4
Australia	18.3	57.7
Bolivia	9.2	18.7
Metal		
Mexico	67.0	169.5
Australia	43.0	194.1
Canada	28.8	106.7
Yugoslavia	28.6	...
Peru	23.4	76.9
Zinc		
Ores and concentrates		
Mexico	127.9	227.4
Canada	120.7	180.8
Peru	63.7	175.6
Metal		
Canada	68.7	188.9
Belgium-Luxembourg	13.6	145.9
Mexico	11.4	27.5
Congo (Leopoldville)	9.9	...
Peru	6.8	30.2
Italy	6.5	6.4

Source: United Nations, *Commodity Survey, 1958* (Sales No.: 59.II.D.1); International Lead and Zinc Study Group, *Monthly Bulletin of Statistics* (New York).

restrictions or tariffs on crude, though many coal producing countries levy duties and taxes on petroleum products, such as fuel oil, which compete most directly with coal. Furthermore, motor spirit and many of the lighter petroleum fractions bear a heavy load of fiscal taxes in most countries; these are revenue raising in purpose but they inevitably exercise some downward pressure on consumption.

The principal official restraints on the movement of crude pretroleum are those operated in France and the United States, as a means of protecting particular producers. All imports into France from outside the franc zone are governed by quota. The quotas are assigned by company some years ahead (allocations for the period 1965 to 1975 were announced early in 1963) and are linked to the offtake of petroleum from Gabon and the Sahara. As the output from these areas has been rising more rapidly than French consumption in recent years, the system has sharply limited the growth of imports from other sources.

In the United States, imports of petroleum were made subject to a voluntary system of control in 1957. As this did not prevent imports from growing at the expense of domestic producers it was subsequently replaced by a mandatory system designed to stabilize the proportion of total consumption met from imports. More recently the basis of control has been altered and imports are now tied to domestic production in the previous year.

The system of control that came into operation in the United States at the beginning of 1963 limits imports of petroleum (crude and products other than residual fuel oil) into the area east of the Rocky Mountains in each half-yearly period of 12.2 per cent of the output of crude petroleum and gas oil in that area in the corresponding portion of the preceding year.[17] 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 remain limited to the gap between local production and consumption.) The new control system is to be based increasingly on quotas to each refinery—thus moving away from the historical basis on which quotas have been allocated since 1957—with a tapering allowance which will tend to provide the smaller refineries with imports for a higher proportion of their capacity than in the case of larger plants. In the first half of 1963, estimating overland imports from Canada and Mexico at 125,000 barrels per day, the aggregate tanker-borne quota is likely to be about 783,000 barrels per day.

Competition of other countries

In varying degree, the measures and policies designed to restrain the flow of imports of primary commodities into the industrial countries exercise a corresponding influence on the exports of the developing countries. The latter, however, are by no means the only suppliers of most of the products in question and a reduction in any of the various obstacles to trade reviewed in the previous section would not necessarily be followed by an automatic increase in the volume or value of the flow of primary commodities from the developing countries to the industrial countries. On the contrary, in a majority of cases it is the industrial countries themselves—or, for some commodities, the centrally planned countries—that are better poised to take advantage of trade liberalization measures.

The reasons for this are complex and vary from one commodity to another; in the present context it is possible to do no more than indicate their general nature. They arise, in part, from conditions and policies in competing countries and in part from forces operating in the developing countries. The former will be discussed in this section, the latter in the next.

The supply of most primary commodities can be increased more readily in the industrial countries than in the developing countries. For some commodities this reflects basic resource endowment—climate as well as land and water, forests and minerals. More generally, however, the state of economic and technical development is itself the dominant influence, increasing the elasticity of supply in the industrial countries where high rates of investment in farms and mines in the post-war period have resulted in a remarkable rise in productivity. Reinforced by favourable fiscal and price-support policies, this has, in a number of cases, brought into being productive capacity appreciably in excess of that required to meet current domestic demand. In some cases, indeed, the surplus is not merely in capacity and potential supply but in actual supplies of the commodity, and trade patterns in recent years have been materially influenced by systematic "disposals" of such surpluses.

[17] See *Petroleum Press Service* (London), January 1963, and Gulf Publishing Company, *World Oil* (Houston, Texas), February 1963.

Thus, just as the lowering of trade barriers among the member countries of the EEC is likely to increase the flow of primary commodities within the Community, and reduce—relatively and perhaps absolutely, to an extent which will depend largely on the internal price policies that are followed—imports from other sources, so the liberalization of trade by the EEC itself and by other industrial countries would probably result in an appreciable expansion in primary commodity exports from North America (cereals, dairy products, oilseeds, tobacco, aluminium, coal), eastern Europe (meat, sugar, coal) and the Soviet Union (cereals, lumber, aluminium, lead, zinc, petroleum). The developing countries would share in the expansion in trade in these commodities, but the resultant increase in earnings might be quite small: it would depend on a large number of interrelated factors including, in particular, the extent to which production and consumption in the industrial countries responded to the decline in price that would probably follow a reduction or withdrawal of official support.

The commodities from which the developing countries stand to gain the largest share in the expansion of trade that might follow liberalization measures would be the tropical products, especially the beverage crops and bananas of which they provide the overwhelming bulk. The chief factors that would tend to limit the gain are those referred to above, namely, the wide spread between import and retail prices—which make the latter rather insensitive to changes in the former—and the generally low price elasticity of demand for these food items in the high-income countries.

The developing countries might also be expected to share in the increase in world trade in sugar, cotton and petroleum that would follow the reduction of barriers to imports into industrial countries. A lowering of existing wool tariffs would tend to benefit exporters of merino and other fine types—principally Australia and South Africa. Most of the remaining commodities important in international trade, and not produced largely in the industrial countries themselves, already, move more or less freely—copra, palm kernels, palm oil, rubber, jute, the hard fibres, tin and copper, for example—so that it would require more than a change in commercial policy in the industrial countries to expand the exports of the developing countries. Moreover, among the commodities, trade in which does stand to gain by liberalization measures, there would be some mutually offsetting tendencies: the availability of cheaper (imported) coal in western Europe, for example, would tend to reduce the demand for petroleum, and a decline in the domestic dairy and livestock supports—to the potential advantage of exporters in South America and Oceania—would probably reduce the demand for oil-seeds and coarse grains.

It is evident even from these brief general comments that the consequences of any reduction in the obstacles to primary commodity trade are likely to be far from simple and direct, either in respect of the domestic readjustments that may ensue or in respect of the distribution of gains from the resultant increase in trade. The only point that requires emphasis in the present context is that, because the developing countries are minority exporters of most of the major primary commodities entering international trade, they are unlikely to be the automatic or sole beneficiaries of any liberalization of import policy by the industrial countries.

The competitive position of the industrial countries in respect of most of the non-tropical commodities is strong not only by virtue of their status as major producers as well as consumers, but also as a result of the momentum of post-war developments which is still carrying forward these countries towards a greater degree of self-sufficiency. These developments rest largely on a high rate of investment and they have entailed not only the rapid raising of productivity in the primary producing sectors as such but also the increasing use of secondary industry to produce "primary" products or substitutes for them.

These matters transcend narrow questions of commercial policy, but not only do they profoundly affect the over-all structure and course of primary commodity imports into the industrial countries and import policies in general; they also impinge directly on the position of the industrial countries as exporters of particular primary commodities. Most immediately involved are the temperate farm products, trade in which has expanded considerably in recent years not only among the industrial countries themselves but also from some of the industrial countries, particularly Canada, France and the United States, to the developing countries. It has even been proposed[18] that this division of labour be institutionalized through international commodity agreements premised on price supports high enough to bring into being, in the industrial countries, surpluses which might be used systematically for concessional sales to developing countries.

Since 1954, most concessional sales have been effected in terms of the "Principles of Surplus Disposal" recommended by the Council of the Food and Agriculture Organization in resolution 2/20. These sought to lay down certain guide-lines by which a given transaction might be made simultaneously of maximum benefit to the recipient and of minimum disadvantage to third countries—particularly those depending heavily on primary commodity exports—catering to normal commercial demand.

The industrial countries have also emerged as sellers of a number of primary commodities by virtue of their earlier accumulation of stocks for strategic objectives which they no longer deem valid. Disposal of such stocks tends to put them in competition with developing countries making normal sales from current production. To reduce the risk of market disruption, understandings have been reached from time to time between those concerned with current trade—rubber producing countries and the International Tin Council, for example—on the one hand and Governments making stockpile disposals on the other with regard to the rate and conditions of release. The result has generally been to reduce disposals when prices are relatively low and hence to spread them over a longer period.

Supply and marketing problems in the developing countries

Not all the obstacles tending to impede the expansion of the primary commodity earnings of the developing countries arise from events and policies directly affecting the imports or exports of the industrial countries. In many cases developments in the industrial countries reflect responses to supply difficulties in the primary exporting countries: the growth of North

[18] General Agreement on Tariffs and Trade, *Proceedings of the Meeting of Ministers* (Geneva, November 1961).

American production of oil-seeds and synthetic rubber, for example, was largely related to the absence of growth in supplies from the developing countries. And, in general, the changing pattern of primary commodity trade in the post-war period has been the result of lags in the developing countries no less than advances in the industrial countries.

The explanations for these lags vary from commodity to commodity, and from country to country. They lie partly in the more general problems of economic development—the peculiar difficulties facing the developing countries in raising investment rates, introducing new technology and transferring production factors in tradition-bound societies in which resources are often very immobile. They also lie in the competition for supplies created internally by population growth (which has greatly accelerated in almost all the developing countries), by rising incomes where the development process has got under way, and by the expansion of domestic industries which have absorbed increasing proportions of local supplies of various raw materials.

In the present context only one aspect of this vast complex of interrelated forces needs to be singled out. It is obvious that the expansion of market opportunities for primary commodities in developed countries will be of little avail to the under-developed countries unless the latter have exportable supplies at their disposal. From this, two related requirements stand out. The first is for a sound assessment of the prospects of particular primary commodities on a global basis, both in respect of emerging demand patterns and in respect of production possibilities and intentions at home and abroad. It is an obvious misallocation of investment to plant coffee trees for whose beans there will be no demand at remunerative prices; it may be no less a misallocation of resources to strive for self-sufficiency in food if this means pre-empting land, labour and capital that might be more profitably employed producing a crop that could be converted into a greater quantity of food through trade. The second requirement is to give primary export activities their due place in development planning, in the allocation of investment resources and in the formulation of fiscal policy. Technological progress need not be confined to the developed countries or to the industrial sector: some of the most significant advances in the post-war period have been in the field of plant genetics, and the need to raise productivity per acre is nowhere more pressing than in the developing countries with high population densities.

Nor is the need to improve efficiency limited to production; the system of distribution is often the weakest link in the chain of export activities, especially when the commodity has to be collected from a large number of peasant cultivators before being processed and packed for shipment. Increasingly these exports have to compete with those from industrial countries; the need for high and standardized quality and stable price has become appreciably greater in recent years. Only if quality standards are maintained will dealer finance be forthcoming for export shipments on competitive markets.

Each situation raises its own unique set of problems. For present purposes it is sufficient to stress the general point that expansion of a particular flow of commodity trade requires not only measures to increase outlets but also parallel measures to make available inputs. And the latter involve not only commodity questions as such but the whole range of questions connected with the optimum allocation of resources in developing countries.

POLICY PROBLEMS IN THE FIELD OF COMMODITY TRADE EXPANSION

It has become increasingly recognized that if the flow of primary commodities from the developing countries to the industrial countries is to be accelerated, it is the latter that, from their position of strength, will have to take the initiative. While liberalizing measures adopted by the industrial countries will not of themselves increase the trade flow in question—this depends on appropriate action in the developing countries—without such measures the rate of growth in this trade will continue to lag. Furthermore, it has also been recognized that most of the measures that might be suitable for such an initiative are not a matter for the conventional type of negotiation. The developing countries are not in a position to make reciprocal concessions, so that at least the early phases of a trade expansion programme would have to be on a unilateral basis.

This need has been endorsed in recent years in all the major forums for international discussion. At their nineteenth session, in December 1961, the Contracting Parties to the GATT, adopting the "Declaration on Promotion of Trade of Less-Developed Countries" that had just been proposed by a meeting of Ministers from forty-four countries, agreed "that immediate steps should be taken to establish specific programmes for action, and where feasible target terminal dates, for progressive reduction and elimination of barriers to the exports of less developed countries".[19]

Shortly afterwards, the United Nations General Assembly at its sixteenth session, after reviewing the position of international trade "as the primary instrument for economic development" and "reaffirming that it is the recognized responsibility of the more highly industrialized countries to make all appropriate efforts to co-operate in accelerating the economic development of the developing and under-developed countries", urged "the economically developed Member States to take into due account, when formulating and executing their trade and economic policies, the interests of the developing and under-developed countries by making maximum efforts to create conditions through which they extend to these countries advantages not necessarily requiring full reciprocity to improve their economic situation".[20]

More recently, the Consultative Assembly of the Council of Europe at its fourteenth ordinary session after recognizing "the responsibilities which the industrial countries carry for the economic progress of the less developed regions", put on record its belief "that it is indispensable that the Atlantic nations revise their present trade policies with a view to expanding the outlets of their markets for the exports of the less developed countries, in the first place for the materials and simple manufactures they now produce and progressively for a wider range of processed goods and industrial products".[21]

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[19] General Agreement on Tariffs and Trade, *Basic Instruments and Selected Documents; Tenth Supplement* (Geneva, 1962), page 33.

[20] *Official Records of the General Assembly, Sixteenth Session, Supplement No. 17*, resolution 1707 (XVI).

[21] Council of Europe Consultative Assembly, Fourteenth Ordinary Session, January 1963, Recommendation 346.

These and other similar declarations of principles have been complemented by recommendations with regard to specific actions in the field of trade policy. Most of these recommendations concern the reduction, or where possible the removal, of barriers to the entry into the industrial countries of exports from the developing countries. Though priorities have not been publicly agreed to, the general shape of a trade expansion programme is beginning to emerge. Thus, Committee III of GATT—whose principal objective is to improve the terms of access to world markets of exports from the less developed countries—has submitted a seven-point schedule of measures for the consideration of the Trade Ministers of the Contracting Parties when they meet in May 1963.

The points have been summarized as follows: "(i) a standstill on new tariff and non-tariff barriers; (ii) the elimination of quantitative restrictions; (iii) duty free entry for tropical products; (iv) the elimination of tariffs on primary products; (v) the reduction and elimination of tariff barriers on the exports of semi-processed and processed products from less developed countries; (vi) the progressive reduction of internal charges and revenue duties; and (vii) the establishment of a reporting procedure for ensuring the implementation of the action programme".[22] Taken individually, each of the points has been accepted in principle and as an objective. It still remains, however, to assign priorities and to agree on the phasing of the programme and the target dates for their achievement.[23]

Starting from the simplest step in the form of a stand-still agreement—that is, a unilateral undertaking by the industrial countries not to add any further obstacle to those already holding down imports of any primary commodity—such a programme would involve the progressive dismantling of the "policy" impediments standing in the way of exports from the developing countries. The pattern of concessions would have to be shaped by the severity of the adjustment problem that each would be likely to occasion. As this would not be precisely the same for each of the industrial countries, much of the negotiation required for delineating a firm time-table would necessarily be among the countries making the concessions rather than between these countries and the potential beneficiaries. In general, the sequence of concessions might be expected to move from the tropical products (for which the progressive reduction of duties and taxes would have only minor fiscal repercussions) through the raw materials and fuels (for which restraints are for the most part not very great and are often held in disfavour by domestic users of the commodity) to the temperate foodstuffs (for which the restraints are often extremely complicated, penetrating deeply into the fabric of the economy in a number of cases).

Within this over-all sequence of obstacle-reduction, a number of subsidiary targets might be set. One of these might involve the progressive replacement of the more disruptive forms of trade barrier by less objectionable forms. In general, this would mean the replacement of less certain (or—to the exporter—more arbitrary) forms of restraint by those whose incidence could be more accurately assessed in advance of shipment.[24]

The working out of a programme of this nature would entail consultation procedures quite different from those on which commodity-by-commodity and country-by-country negotiations are customarily based. Some more general framework would be required and to this end a working party has been appointed by the Contracting Parties to the GATT to examine new procedures and techniques.

Perhaps the most difficult aspect of any liberalization programme will be that involving the protection of domestic primary producers. As suggested above, commercial policy in this area is often no more than the handmaiden of internal economic, political and strategic policies. The basic factor here is not the external tariff and quota system but the domestic production policy. And the key variable is usually not a customs duty but a support price.

It is for this reason that special importance attaches to a recent action in the Food and Agriculture Organization of the United Nations (FAO). In 1957 the FAO Conference adopted a resolution (8/57) "recognizing that in certain circumstances national agricultural policies may have undesirable repercussions on the level of production and supplies of commodities, and, consequently, on normal international trade and conditions in other countries . . . ;" and endorsing "the need for agreed principles to serve as guide lines for use by Member Governments in establishing or reviewing their agricultural price and income support policies in order to ensure that such policies will be effective in achieving their objectives, but will have minimum adverse repercussions on the pattern of production and trade of other countries". A panel was set up "to recommend guiding principles designed to minimize the adverse effects of agricultural support policies on international trade, and to be taken into account by Member Governments in establishing or reviewing their agricultural policies".

In recommending a set of principles and guidelines—arrived at after extended discussions with governments—this panel observed "it is essential that governments should, to the greatest extent practicable, bear in mind the impact of their agricultural price stabilization and support policies on other countries, especially countries whose earnings of foreign exchange depend essentially on the export of agricultural products. The long-term aim, to which all countries could subscribe, should be an increase in world prosperity and international trade, arising from a more balanced and rational

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[22] "The Work of the GATT in Relation to Commodity Problems" (United Nations mimeographed document E/CN.13/L.78).

[23] The original eighteen-nation proposal to Committee III set target dates for the achievement of most of the constituent elements of the programme as follows: point (iii) by the end of 1963; points (ii) and (vi) by the end of 1965, and a 50 per cent reduction under point (v) within three years. (From General Agreement on Tariffs and Trade Press Release No. 726 of 29 November 1962 (Geneva)).

[24] Among the devices that—to judge by recent discussions—have been found most troublesome by exporters are the global first-come-first-served annual quota and the variable levy which is determined only when a consignment has arrived at its destination. But all non-tariff restraints have been criticized for their inhibiting effect on international trade. Their extensive use for agricultural protection has led Committee II of the GATT to conclude that they had "impaired or nullified tariff concessions or other benefits which agricultural exporting countries expect to receive from the General Agreement . . . [and] weakened or threatened to weaken the operation of the General Agreement as an instrument for the promotion of mutually advantageous trade". (General Agreement on Tariffs and Trade, Third Report of Committee II, adopted 15 November 1961, document L/1461.)

use of resources within and between countries and the avoidance of disturbances in international markets."[25]

Among the "principles" it recommended in respect of aims and criteria of support policies was "the improvement of the international distribution of primary products bearing in mind that the attainment of such an objective is a responsibility to be shared jointly by importing and exporting countries". And in laying down "guide-lines" for price levels, the panel concluded "Where prices are supported at a level which is high in relation to prices in international trade, the result may be an intensified use of import restrictions or of export subsidies. Recognizing this, governments should adopt measures which make it possible to avoid or reduce serious differences between price levels on the home market and the general level of prices over a period in international trade, where this trade is substantial, and with due allowance for any influence of export subsidies on international price levels. For so long as governments find it necessary, because of established policies, to support prices at levels above those in international trade, it is essential that these policies should include measures designed to avoid or reduce disruptive effects on international trade in primary products".[26]

At its eleventh session, in 1961, the FAO Conference endorsed "the Guiding Principles for national agricultural price stabilization and support policies with special reference to the need to minimize adverse effects on international trade as an important further step in the field of international co-operation;" (resolution 3/61) and invited Member Governments to inform the Director-General whether they were prepared to accept them. At the thirty-ninth session of the FAO Council in October 1962, it was announced that up to that point, forty-three countries had formally accepted the principles. By April 1963 the number had risen to fifty.

The growing recognition of the essential unity of domestic support policies on the one hand and external trade policies on the other has also had repercussions on negotiations within the framework of the GATT. Following on the ministerial meeting of November 1961, at which "great concern" was expressed about the serious effects which the widespread resort to non-tariff devices for protecting agriculture was having on international trade, the Contracting Parties began to establish working groups to seek "a basis for the negotiation of practical measures for the creation of acceptable conditions of access to world markets" for various categories of agricultural commodities.[27] It was also agreed that member countries should be invited to give notice of substantial changes in agricultural policy and that Committee II should be authorized to consult with particular Contracting Parties when so requested.

The first of such requests was made in connexion with the adoption of a common agricultural policy by the members of EEC. The outcome of this was an assurance by EEC "that it was prepared, on the basis of reciprocity, to enter into consultation or into negotiation as regards the general price policy of the Community in respect of the agricultural products concerned".[28] International consultation regarding domestic price policy introduces a significant new dimension into the proposed programme for expanding primary commodity trade. It brings the problem of internal adjustment on the stage of commercial negotiation in a much more overt and explicit fashion than ever before, influencing directly the time-table for liberalization measures.

Within the importing country, the dismantling of customs barriers might mean the evolution of alternative means of sustaining the incomes of farmers and miners whose protection was being reduced. In most cases this would also involve re-training and re-deployment schemes for easing the transfer of marginal producers and their capital to other economic activities. Contingencies of this nature were provided for in the Trade Expansion Act passed in the United States in 1962, and wherever resource transfers were rendered necessary by the opening of domestic markets to imports, the rate of expansion would have to be governed by a realistic appraisal of the prospects for internal accommodation.

The accommodation of domestic production to a higher level of international trade would not necessarily be confined to the industrial countries, particularly if—in pursuit of a more rational division of labour—the liberalization programme involved the progressive elimination of discriminatory elements in customs tariffs. In a number of cases this would involve adjustment problems in developing countries whose producers had previously been granted some form of preference in one or other of the importing countries. The loss of such preference might be offset by the use of some compensatory device—perhaps a capital fund similar to the one set up by the EEC to assist in resource transfer or export diversification in countries which had previously enjoyed preferential advantages in the French market.

The removal of discrimination among suppliers might be accompanied by the reduction of discrimination among different forms of the primary commodity. As indicated above, customs tariffs tend to rise sharply with the degree of processing and this often serves to deter exporters from processing the commodity at its source, thus denying to the developing country a mill or refinery or other "manufacturing"establishment that might well serve as a growing point in the process of industrialization.[29]

While the success of a liberalization programme of this nature would depend in large measure on the working out of a realistic time-table for giving effect to its various components, the adoption of the underlying principles would need to be followed up by a year-by-year reporting on achievements. Point (vii) of the GATT Committee III proposals for a programme for expanding trade between the developing countries and the industrial countries draws its inspiration from the practice worked out by the Organisation for European Economic Co-operation (OEEC) during the post-war reconstruction period when trade among the industrial countries themselves was being progressively liberalized.

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[25] Food and Agriculture Organization of the United Nations, *National Agricultural Price Stabilization and Support Policies* (Rome, 1961), page 5.

[26] *Ibid.*, pages 7 and 8.

[27] *See* United Nations mimeographed document E/CN.13/L.78, paragraph 5. So far, working groups have been set up to deal with cereals and meat, and other groups are contemplated.

[28] *Ibid.*, paragraph 8.

[29] The ground has been prepared for this aspect of a trade expansion programme by the general acceptance of the desirability of widening markets in the industrial countries for processed products from the developing countries. *See* General Assembly resolution 1707 (XVI), operative paragraph 2 (*c*); the GATT Ministerial Declaration of December 1961, paragraph 4 (*b*), and the Council for Europe Recommendation 346, clause 1 (*ii*) and (*iii*). The question is explored in detail in chapter 3 of the present publication.

Applying this procedure to the industrial countries in respect of their imports of primary commodities from the developing countries would require some sort of annual confrontation. Each of the participating countries might report on the progress achieved in the previous year, indicate the current level of protection to local producers of the commodities included in the programme and give details of its intentions with regard to liberalization in the coming year, specifying its target for imports of each commodity in terms of a percentage of total domestic consumption. It would be the declared purpose of the programme to require a progressive raising of that percentage and a progressive narrowing of the gap between domestic price and world price. For, given the relatively slow rate of increase in the consumption of most primary commodities in the industrial countries, it is only in so far as the developing countries are able to share more than proportionately in the increment in demand that there is hope for raising the rate of growth in their export earnings to the minimum implicit in the targets set for the Development Decade.

The over-all dimensions of a programme necessary to achieve the required rate of expansion in trade would depend on the rate of growth in demand for the primary commodities available for export from the developing countries. The more widely spread—over importing countries and over commodities—the less disruptive would it be to domestic producers in the industrial countries. The twin desiderata—maximization of imports from developing countries and minimization of internal displacement of commodity producers in the developed countries—would govern the priorities accorded to particular commodities in the programme.

To some extent the evolution of the time-table would be determined by the achievements of the programme itself. Export gains by the developing countries would be translated rapidly into import demand, to the benefit of export industries in the developed countries, and expansion of the export industries would in turn facilitate the transfer of marginal resources from primary activities whose contraction was required under the programme. The narrowing of the price gap would tend to increase the real purchasing power of consumers in the industrial countries: demand would expand, partly for the commodity in question, partly for other goods, and this would also assist in the re-deployment of labour and capital from the margins of the primary industries involved. As long as such movement was orderly and purposeful, the industrial countries would begin to benefit at an early stage from the over-all improvement in resource allocation which such a programme might be expected to bring about. Only by a concerted effort of this nature—necessarily initiated by the industrial countries—can the external environment be sufficiently improved to permit the acceleration of the rate of growth of the developing countries called for in the Development Decade.

Trade in primary commodities among developing countries

The trade of the developing countries in primary commodities has been characterized in recent years by paradoxical changes. On the one hand, their imports of many of the principal commodities—cereals, sugar, cotton, rubber, aluminium, lead and zinc, for example—have increased more rapidly than those of the rest of the world. On the other hand, their imports from one another have increased much less rapidly than any of the other major trade flows.[30] The significance of this contrast is heightened by the fact that the developing countries are not only important sources of many of these commodities but they are also heavily dependent on exports of them for vital foreign exchange.

In 1961, the under-developed areas spent almost $12 billion on primary commodity imports—39 per cent on food and tobacco, 26 per cent on fuel, 18 per cent on raw materials and 17 per cent on base metals (including iron and steel). Over three-fourths of the fuel came from developing countries, but rather less than half of the raw materials, less than a third of foodstuffs and only about 5 per cent of the metals; altogether about 40 per cent of total import expenditure on primary products went to other developing countries. (*See* table 2-16.)

Two questions immediately suggest themselves: why have the developing countries not drawn more of their primary product requirements from among themselves and, in the light of the possible answers to that question, to what extent are past conditions likely to obtain in the future? Since the influences at work vary not only from country to country and from commodity to commodity but even from time to time, all that can be attempted here is to select what seem to be the major factors and examine them in order to determine what might be called their policy content and assess the degree to which they are amenable to direct change through economic and commercial policy decisions.

In almost every under-developed country the demand for primary commodities has been increasing at an accelerating rate. This reflects the almost universal acceleration in population growth on the one hand and on the other the upward curve in fuel and raw material requirements implicit in the process of mechanization and industrialization which is now generally under way. This trend will almost certainly continue in the years immediately ahead.

Even if birth rates begin to decline, the rate of increase in population will continue to rise in the wake of falling death rates and the change in the age structure of the population that has already taken place in most countries. And as per capita incomes rise, the demand for food will not only increase in terms of volume but it will also tend to become more diverse: diets may be expected to grow more varied and food budgets to include more higher-protein items as well as commodities for which little or no demand has previously existed.

Similar forces may be expected to affect the growth in demand for raw materials and fuels. The Development Decade is itself premised on the diversification of the economies of the under-developed countries; the achievement of its targets depends very largely on the expansion and extension of manufacturing processes and the spread of industrial techniques to agriculture. The intake of raw materials will thus increase not only

[30] These trends are discussed briefly in the first section of this chapter—tables 2-4 and 2-5 are particularly relevant—and in greater detail in United Nations, *Commodity Survey, 1962.*

Table 2-16. Under-developed Areas: Primary Commodity Trade, by Selected Classes and Regions, 1961

(*Millions of dollars, f.o.b.*)

Source and category of exports	Destination of exports: World[a]	Under-developed areas[b]	Latin America	Africa[c]	Middle East[d]	Southern and south-eastern Asia	North Africa and West Indies[e]	Australia, New Zealand and South Africa
World								
Food, beverages, tobacco[f]	23,330	4,640	850	1,270	750	1,770	790	240
Cereals[g]	4,590	1,430	270	285	185	730	160	32
Crude materials[h]	21,130	2,080	500	380	285	1,060	155	290
Fibres[i]	5,690	520	71	88	58	365	14	69
Ores and scrap[j]	3,860	71	27	5	1	41	—	6
Fuels[k]	13,480	3,010	570	630	415	695	1,040	390
Base metals[l]	11,210	2,010	660	400	305	735	140	245
TOTAL, above items	69,150	11,740	2,580	2,680	1,755	4,260	2,125	1,165
Under-developed areas[b]								
Food, beverages, tobacco[f]	8,010	1,450	225	310	270	705	120	105
Cereals[g]	740	420	33	48	44	295	17	10
Crude materials[h]	7,360	970	160	125	84	618	65	120
Fibres[i]	1,850	150	8	28	14	125	2	25
Ores and scrap[j]	1,240	42	11	3	1	30	—	4
Fuels[k]	8,100	2,330	380	360	310	565	870	325
Base metals[l]	1,360	96	32	24	1	60	1	25
TOTAL, above items	24,830	4,846	797	819	665	1,948	1,056	575
Latin America								
Food, beverages, tobacco[f]	3,600	305	205	38	29	39	31	7
Cereals[g]	200	39	30	2	—	7	—	—
Crude materials[h]	1,830	135	95	9	2	15	26	14
Fibres[i]	710	22	6	4	1	15	—	6
Ores and scrap[j]	510	8	8	—	—	—	—	—
Fuels[k]	2,380	940	190	23	1	4	730	16
Base metals[l]	500	20	19	—	—	1	—	—
TOTAL, above items	8,310	1,400	509	70	32	59	787	37
Africa[c]								
Food, beverages, tobacco[f]	2,160	290	10	200	61	54	52	32
Cereals[g]	125	29	3	14	9	4	1	—
Crude materials[h]	2,640	210	11	80	46	101	20	28
Fibres[i]	790	78	2	6	3	72	—	6
Ores and scrap[j]	400	2	—	3	1	—	—	2
Fuels[k]	450	19	—	13	1	3	4	1
Base metals[l]	710	57	10	39	—	29	1	28
TOTAL, above items	5,960	576	31	332	108	187	77	89
Middle East[d]								
Food, beverages, tobacco[f]	365	140	4	31	110	19	5	2
Cereals[g]	—	—	—	—	—	—	—	—
Crude materials[h]	720	105	3	22	49	50	2	3
Fibres[i]	120	10	—	—	4	6	—	—
Ores and scrap[j]	—	—	—	—	—	—	—	—
Fuels[k]	3,780	800	54	250	300	272	52	215
Base metals[l]	—	—	—	—	—	—	—	—
TOTAL, above items	4,365	1,045	61	303	459	341	59	220
Southern and south-eastern Asia								
Food, beverages, tobacco[f]	2,030	795	6	88	116	628	11	63
Cereals[g]	450	335	—	33	31	281	1	10
Crude materials[h]	2,900	585	54	37	20	498	6	53
Fibres[i]	320	37	2	17	8	25	1	11
Ores and scrap[j]	315	31	3	—	—	29	—	—
Fuels[k]	570	295	1	1	1	282	12	84
Base metals[l]	235	40	5	1	1	33	—	3
TOTAL, above items	5,735	1,715	66	127	138	1,441	29	203
North Africa and West Indies[e]								
Food, beverages, tobacco[f]	830	70	7	37	3	2	40	8
Crude materials[h]	590	31	3	11	1	6	18	32
Fuels[k]	1,310	285	135	76	8	9	75	13
TOTAL, above items[m]	2,730	386	145	124	12	17	133	53

Table 2-16 (*continued*)

Source and category of exports	Destination of exports: World[a]	Under-developed areas[b]	Latin America	Africa[c]	Middle East[d]	Southern and south-eastern Asia	North Africa and West Indies[e]	Australia, New Zealand and South Africa
Australia, New Zealand and South Africa								
Food, beverages, tobacco[f]	1,620	260	3	52	38	137	47	37
Cereals[g]	435	70	—	25	22	32	7	16
Crude materials[h]	1,800	66	13	18	8	32	1	30
Fibres[i]	1,270	37	11	4	4	21	—	7
Ores and scrap[j]	245	2	—	—	—	1	—	—
Fuels[k]	95	31	—	10	3	14	6	23
Base metals[l]	260	43	2	18	—	16	3	40
TOTAL, above items	3,775	400	18	98	49	199	57	130

Source: United Nations, *Monthly Bulletin of Statistics*, March and April 1963.

[a] Includes special category exports, ships' stores and bunkers and other exports whose destination could not be determined.

[b] Latin America, Africa (excluding South Africa) and Asia (excluding Japan, Turkey and the centrally planned countries).

[c] African continent and associated islands.

[d] Cyprus, Ethiopia, Iran, Iraq, Israel, Jordan, Kuwait, Lebanon, Libya, Saudi Arabia, Sudan, Syria and United Arab Republic.

[e] Algeria, Jamaica, Morocco, Netherlands Antilles, Trinidad and Tobago, and Tunisia.

[f] SITC sections 0 and 1.

[g] SITC groups 041 to 045.

[h] SITC sections 2 and 4.

[i] SITC division 26.

[j] SITC division 28.

[k] SITC section 3.

[l] SITC divisions 67 and 68, less 681.

[m] Sum of SITC sections 0, 1, 2, 3 and 4.

in amount but also in diversity. And, with the electrification of towns and villages as well as of factories, the demand for energy—and hence for the fuels that provide it—is likely to rise even more rapidly than that for raw material inputs.

In the past the overwhelming bulk of food and raw material requirements has been drawn from indigenous sources, and this will continue to be the case in the foreseeable future in all but a few of the developing countries.[31] Nevertheless, as pointed out above, the import bill for primary commodities has been creeping up: already nearly a sixth of the import expenditure of the developing countries is devoted to foodstuffs, almost as much to raw materials and non-ferrous metals and about 10 per cent to fuels. Though import requirements are still no more than marginal in relation to total consumption of primary commodities, in relation to the balance of payments of quite a number of countries they are already a major item, both quantitatively and qualitatively. Herein lies one of the principal explanations of the present pattern of commodity trade.

For a country short of foreign exchange and anxious to conserve as much as possible for financing the purchase of capital goods on which its development programme depends, increasing demand for *food and fuel* is likely to be met first by efforts to maximize domestic production and, in so far as these are insufficient, by a search for external supplies on the most favourable possible terms. In general, the latter are not available from other under-developed countries, which are likely to be in a similar balance of payments position, trying to maximize their convertible currency earnings from whatever exportable supplies they may have. In these circumstances, the possibility of obtaining rice and petroleum, for example, through barter arrangements with mainland China and the Soviet Union has obvious advantages. Even more attractive have been the offers of cereals and oil-seeds on concessional terms from the United States: in many instances such transactions have involved no foreign exchange expenditure at all.

The demand for *raw materials* in the developing countries exercises its effect on the pattern of trade and the balance of payments in a rather different way. This reflects, in part, the contrast between the process of increasing food supplies by extending and raising productivity in agriculture on the one hand and the process of industrial development on the other. But it also reflects the fact that industrial requirements tend to be much more complex and at the same time more specific than those needed to supplement domestic food and fuel supply.

In general, industrial development has been closely related to the indigenous resource base. In many cases this merely reflects the historical role played by the industries processing primary products for export or preparing foodstuffs for domestic consumption. Even where special steps have been taken to encourage industry, however, the availability of local raw materials has been a major criterion for setting priorities. The reason for this has again tended to rest on the determining role played by the balance of payments.

In this area, however, choices are often difficult to make since there are very few industries whose intake is restricted to a single raw material.[32] Thus, especially in the early stages of industrialization, the establish-

[31] The exceptions at present are such places as Aden, Hong Kong, the Netherlands Antilles, Singapore, whose economies are based essentially on processing and servicing activities using imported commodities. This may be the pattern of future development of other small countries whose natural resources are severely limited in volume and range.

[32] Even the manufacture of as simple an article as a shoe has traditionally required not only the basic material, leather —which itself requires salt, lime, caustic soda, sulphuric acid, wattle, quebracho, chrome or other tanning extract, and a score of other chemicals, fats and dyes—but also cotton or rayon for laces, thin iron plate for lace tags, copper and zinc for brass eyelets, steel for nails and a further batch of resins and chemicals for adhesives, colouring and polishing.

ment of every new factory automatically generates demand for raw materials which have to be imported. In many instances the intake of new industries is available in the most convenient form—standardized or processed in some way—in the industrial countries rather than in the under-developed countries. There is sometimes even a cost advantage in drawing raw materials from the industrial countries; this is the case with rayon and synthetic rubber, for example: these are cheaper than the natural commodity obtainable from an under-developed country.

Historically, moreover, many industries have developed in new areas from what are essentially assembly plants working on imported components, by gradually increasing the locally produced content of the final product. This is particularly the case when the industry obtains a large proportion of its material intake from a parent concern in one of the industrial countries but, as implied above, it may be a logical strategy for industrial development in a country in which balance of payments pressures limit the range of import-creating investment that can be safely undertaken at any one time.

Some of the characteristics of demand in the under-developed countries which detract from their potential as markets for primary commodity exports from other under-developed countries will change as the process of economic development continues. Only when demand has become sufficiently large and steady is it likely to bring into being the often complex commercial apparatus through which the international flow of primary commodities is ordinarily channelled. This includes storage facilities on the importing as well as the exporting side, regular and reasonably priced transport facilities, and credit with which movement through such a pipeline needs to be financed. Merely to list such commercial requirements is to indicate some of the organizational handicaps that now impede the flow of commodities among the developing countries.[33] It is also to suggest an area in which action by governments could help to promote trade.[34]

One of the features of the demand for primary commodities in the developing countries is its wide scatter: though in the aggregate it is now assuming major significance in world trade, it lacks the great concentrations that characterize demand in the industrial regions, and the geographic dispersal of consumption points for many items tends to complicate and raise the cost of physical distribution and market promotion. The commercial links connnecting Latin America and Africa and southern and south-eastern Asia are still very tenuous. It was in recognition of this problem that the Coffee Agreement of 1962 exempted shipments to "new" markets—that is, those outside North America and western Europe—from quota control, thereby offering some incentive to exporters to promote the consumption of coffee in the developing as well as in the centrally planned countries.

A similar difficulty arises from the generally competitive nature of economies within the same geographical area. Climatic and geological similarities as well as historical developments often tend to give neighbouring countries commodity structures that are broadly alike. This obviously limits the possibilities of exchange, compared with those available to economies that are dissimilar or complementary and, to an even greater extent, to more highly diversified economies.

This is a problem facing the consummation of plans for regional economic integration and the expansion of intra-regional trade. Much of the discussion of these arrangements has been addressed to what is in most cases their principal purpose, namely, to so enlarge the market within the customs area that it would allow for a considerably greater degree of industrial diversification than would be possible within the constituent country markets. This objective has implications for primary commodity trade as well: domestic support policies and external commercial policies would gradually have to be brought into alignment, so that consumers and industrial users within the grouping would have access to food, fuel and raw materials on more or less equal terms. As there has been a distinct tendency for many of the developing countries to aim at a high degree of self-sufficiency in basic foodstuffs and fuels—chiefly as a means of economizing foreign exchange, but also for strategic reasons—the movement towards a common price and tariff structure would have to be phased over an agreed adjustment period.[35]

By far the largest amount of intra-regional trade in primary commodities occurs in southern and south-eastern Asia (*see* table 2-16). This reflects in part the existence in the region of two major *entrepôt* territories—Hong Kong and Singapore—through which a good deal of the region's trade is conducted. But it also reflects the interdependence of the country components of the region's rice economy. Rice, indeed, is the only major internationally-traded primary commodity whose principal market is among the developing countries. For this reason, particular significance has been attached to the import policies being pursued by rice-deficit countries. At the seventh session of the Consultative Subcommittee on the Economic Aspects of Rice,[36] following

[33] These difficulties have been reviewed in most detail in recent years in connexion with plans to develop customs unions and other forms of regional integration. *See in particular* United Nations, *Study of Inter-Latin-American Trade* (Sales No.: 56.II.G.3) and *Transport in Central America* (Sales No.: 53.VIII.G.2). Regional transport and related trade problems have also been examined in the United Nations Economic Commission for Africa; *see* "Report of the First Session of the Standing Committee on Trade" (mimeographed document E/CN.14/174).

[34] The work of the United Nations Economic Commission for Asia and the Far East (ECAFE) Committee on Trade might be cited in this connexion: it has organized research and inter-governmental consultation in relation to numerous problems in this field, including the operation of state trading, the organization of trade fairs, the dissemination of market intelligence, the improvement of production and marketing of commodities of such regional importance as copra and jute, the simplification of customs formalities, and the possibilities of increasing the availability of shipping facilities. *See* "Report of the Committee on Trade (Sixth Session)" (ECAFE mimeographed document E/CN.11/610).

[35] One of the advantages expected to flow from the institution of a "Free Trade Area" in Latin America is the exposure of agriculture to greater competition. "Latin American agriculture is in much need of effective development incentives and basic institutional changes that will facilitate the breaking of the series of vicious circles in which this activity is presently entoiled, so that it can be lifted in its entirety to increasingly higher levels of production and productivity. The expansion of markets and the chances for a much more efficient use of resources that the new arrangements could provide would give the necessary opportunity for the attainment of the above-mentioned objectives." ("The Role of Agriculture in Latin American Common Market and Free-trade Area Arrangements", mimeographed document E/CN.12/551).

[36] This is a Consultative Sub-committee to the Committee on Commodity Problems of the Food and Agriculture Organization of the United Nations.

up on a discussion of the international effects of self-sufficiency policies that had taken place at the previous session, there was an examination of some of the reasons why governments continue to encourage the production of high-cost domestic rice even when lower-cost imports were available. Since these reasons frequently apply, in varying degree, to other primary commodities which developing countries tend to produce locally rather than buy from abroad, they are worth detailing.[37]

Perhaps the most significant motivation stems from reactions to balance of payments pressure aggravated, if not induced, by deterioration in the terms of trade. "The choice of whether to invest more capital in rice as part of a policy of 'import substitution', or to concentrate on promoting exportable products, depends only partly on the comparative costs of rice. It will depend equally on how far the rice deficit country has a comparative cost advantage in the exportable goods concerned, and on the long-range market prospects for these goods."

[37] Food and Agriculture Organization of the United Nations, "Report of the Seventh Session of the Consultative Sub-committee on the Economic Aspects of Rice to the Committee on Commodity Problems" (document CCP 63/14), page 12. *See also* FAO documents CCP/Rice/63/5 and CCP/Rice/63/7.

But in under-developed countries, lack of alternative employment opportunities also stands in the way of efforts to improve resource utilization. Thus even "in deficit countries not facing chronic foreign exchange difficulties, . . . the economic advantages of halting the expansion of rice production must be balanced against the complex social problems involved in transferring rice farmers into other occupations". There is also a belief that "the cost advantage in favor of imported rice may not be permanent" and that by heavier investment to raise productivity, costs in the deficit country may be reduced relative to those in the exporting country. In the case of rice, moreover, the strategic motivation is often strong: it is felt that "because of crop fluctuations and the relatively meager stocks, there is no assurance of a sufficient volume of rice being always available on the international market to meet the importers' essential food requirements".

The results of influences of this nature are reflected in the primary commodity policies—and especially the agricultural policies—pursued in most of the developing countries. And by the same token they underlie the related trade policies. Thus, developing countries tend to practise quantitative control over the importation of all primary products which enter domestic consumption in significant quantities (*see* table 2-17). Restraints

Table 2-17. Non-tariff Measures Affecting Imports of Selected Commodities into Various Primary Exporting Countries[a]

Country	*Wheat*	*Rice*	*Barley*	*Maize*	*Sugar*	*Meat*	*Butter*	*Oil-seeds*	*Vege-table oils*	*Tobacco*	*Cotton*
Argentina	..	..	..	..	..	..	..	..	..	C	—
Australia	S	—	S	—	P	—	—	CM	CM	AM	—
Brazil	CSAM	..	..	..	—	L	L	—	—	..	L
Burma	..	L	..	..	L	L	L	L	L	..	..
Cambodia	L	L	—	..	L	LP	L	L	L	..	..
Ceylon	S	SA	S	S	S	—	—	—	—	Td	..
Colombia	..	..	..	..	..	P	..	C	C	SC	CL
Ecuador	..	..	..	..	..	..	..	..	..	CM	..
Ghana	—	—	—	—	—	—	—	—	—	C	..
India	LS	L	L	L	P	L	P	L	L	C	CL
Indonesia	L	S	L	L	LS	—	CL	—	—	L	S
Iran	..	..	..	..	..	..	..	..	..	S	..
Iraq	..	..	..	..	..	..	..	..	..	S	..
Israel	LS	L	L	LS	L	LS	L	LS	LS	L	..
Malaya (Federation of)	—	LM	—	—	—	—	—	—	—	—	—
Mexico	..	..	..	..	..	P	..	..	..	..	LC
Morocco	..	..	..	..	..	..	..	..	..	SA	..
New Zealand	LS	LM	L	L	L	L	L	L	L	M	..
Pakistan	S	S	L	L	S	L	L	L	L	L	LC
Peru	..	..	..	..	..	..	..	..	..	S	—
Philippines	..	..	..	..	..	..	..	..	..	L	..
Rhodesia and Nyasaland	C	..	C	LS	L	CLS	S	CLS	CLS	..	L
South Africa	S	—	S	S	—	—	S	L	L	CA	—
Syria	..	..	..	..	..	..	..	..	..	SC	..
Thailand	..	..	..	..	..	..	..	..	..	S	..
Tunisia	C	C	C	C	C	—	C	C	C	SA	..
Turkey	CSM	CS	CS	CS	C	CS	C	C	C	S	L
UAR	..	..	..	..	..	..	..	..	..	LA	P
Venezuela	..	..	..	..	..	L	..	..	..	L	..

Source: General Agreement on Tariffs and Trade, Committee II—Expansion of Trade, document COM. II/112; United States Department of Agriculture, *Prospects for Foreign Trade in Livestock and Meat* (Washington, D.C., January 1963); *Oil-seeds and Oil-seed Products* (February 1963), *Tobacco* (December 1962), *Cotton* (March 1963).

[a] The existence of non-tariff measures is denoted by the following symbols: A—bilateral agreement, often associated with a quota; C—quantitative control; L—licensing arrangement, usually associated with quantitative control; M—mixing regulation, usually designed to control the ratio of imports to domestic production; P—prohibited; S—state trading, carried out by a government or government authorized monopoly.

range from a fairly nominal licensing system to absolute prohibition. The licensing is often operated in conjunction with foreign exchange control and is therefore sometimes selective in its incidence, depending on the availability of foreign currencies or on bilateral trading arrangements which may involve the exchange of specified quantities of the commodities in question. In a number of countries all importing of primary commodities which are also locally produced is in the hands of government, either directly or through an agency set up to acquire from abroad whatever emerges as the gap between domestic consumption and domestic production. Mixing regulations, applied to local manufacturing activities, are also used to that end, the ratio of domestic supplies to imports being set from season to season at a figure designed to ensure the absorption of the current crop.

In principle, the commercial policies of the developing countries thus bear a close resemblance to those of the industrial countries. Their motivation, however, and even more the circumstances in which they have to be implemented are quite different, dominated as they are in the developing countries by balance of payments considerations, by the relative magnitude of primary commodity production and trade in undiversified economies and by the special inflexibilities that arise from this lack of diversification. These circumstances have led to increasing emphasis on the need to integrate the foreign trade sector more closely with general economic development plans.[38] Import policies—and hence the possibility of a more rapid expansion of trade in primary commodities among developing countries—are affected directly and obviously by the rate of economic growth in individual countries. What is more difficult to take into account is the effect that import policies pursued by one developing country have on other countries, and not only those within the same region. This is an area in which effective consultation among governments during the formative stage of individual country development programmes could make a useful contribution to the more rational use of resources. As the developing countries constitute—actually or potentially—the most rapidly growing market for many of the primary commodities, the expansion of such trading opportunities could itself have a significant developmental effect.

[38] *See*, for example, "Foreign Trade Aspects of Economic Development Plans of ECAFE Countries" (*mimeographed* document E/CN.11/Trade/L.56).

Measures for stabilizing primary commodity markets

THE PROBLEM OF SHORT-TERM INSTABILITY

World markets for primary commodities have always been much less stable than those for most manufactured goods. And notwithstanding the attention given to international commodity problems over several decades, violent fluctuations in primary product prices have persisted. The instability has not been confined to particular categories of commodities: as may be seen from chart 2-2, which shows the movement of a number of price indices during the period 1950 to 1962, all categories of commodities—foodstuffs as well as raw materials for industry, minerals as well as agricultural products—have been subject to large fluctuations in price.[39]

A major source of such instability lies in the cyclical variations that continue to characterize income and output in the industrially advanced countries which constitute by far the most important markets for primary commodities entering international trade. Though the post-war period has been free from economic upheavals of the magnitude of those of the nineteen twenties and thirties—so that there has been some lessening of the instability of world commodity trade[40]—even the mild post-war recessions in the industrially-advanced countries have resulted in sharp movements in the demand for primary commodities.[41] Over and above these cyclical movements in the advanced countries have been a number of more random fluctuations in demand, emanating from such events as the Korean and the Suez crises. Speculative activity set in motion by political circumstances, changes in inventory policies of traders and manufacturers, and changes in official policies relating to strategic stockpiling or disposal of surpluses have also impinged heavily on world trade in primary commodities.

In addition to variations in demand, forces affecting supply have also contributed to the instability of primary commodity markets. Output of agricultural commodities is highly susceptible to variations in natural conditions; flood, drought or disease may greatly reduce output in some years, while favourable weather may bring forth unusually large harvests in others. Moreover, in primary activity, where production decisions have to be made long before the output can be offered for sale, supplies cannot be varied quickly to meet sudden changes in demand. This problem is particularly acute in the case of the tree crops where increases in capacity give rise to increases in output only after a lapse of several years.

Interrelated with these short-period fluctuations in the post-war years has been the erosion in the prices of most primary commodities that has taken place in recent years, especially since the mid-nineteen fifties. As indicated in chapter 1 and in the first part of this chapter, the average export price of primary commodities has tended to decline, while the average export price of manufactured goods has tended to increase. These divergent trends have accentuated very greatly the disruptive effects of short-term instability on the economies of many of the under-developed countries. Most of these countries are heavily dependent on a small number of primary commodities for the bulk of their foreign exchange earnings, while manufactured goods account for a very large share in their imports. Thus, as indicated in chart 2-3, fluctuations in the prices of

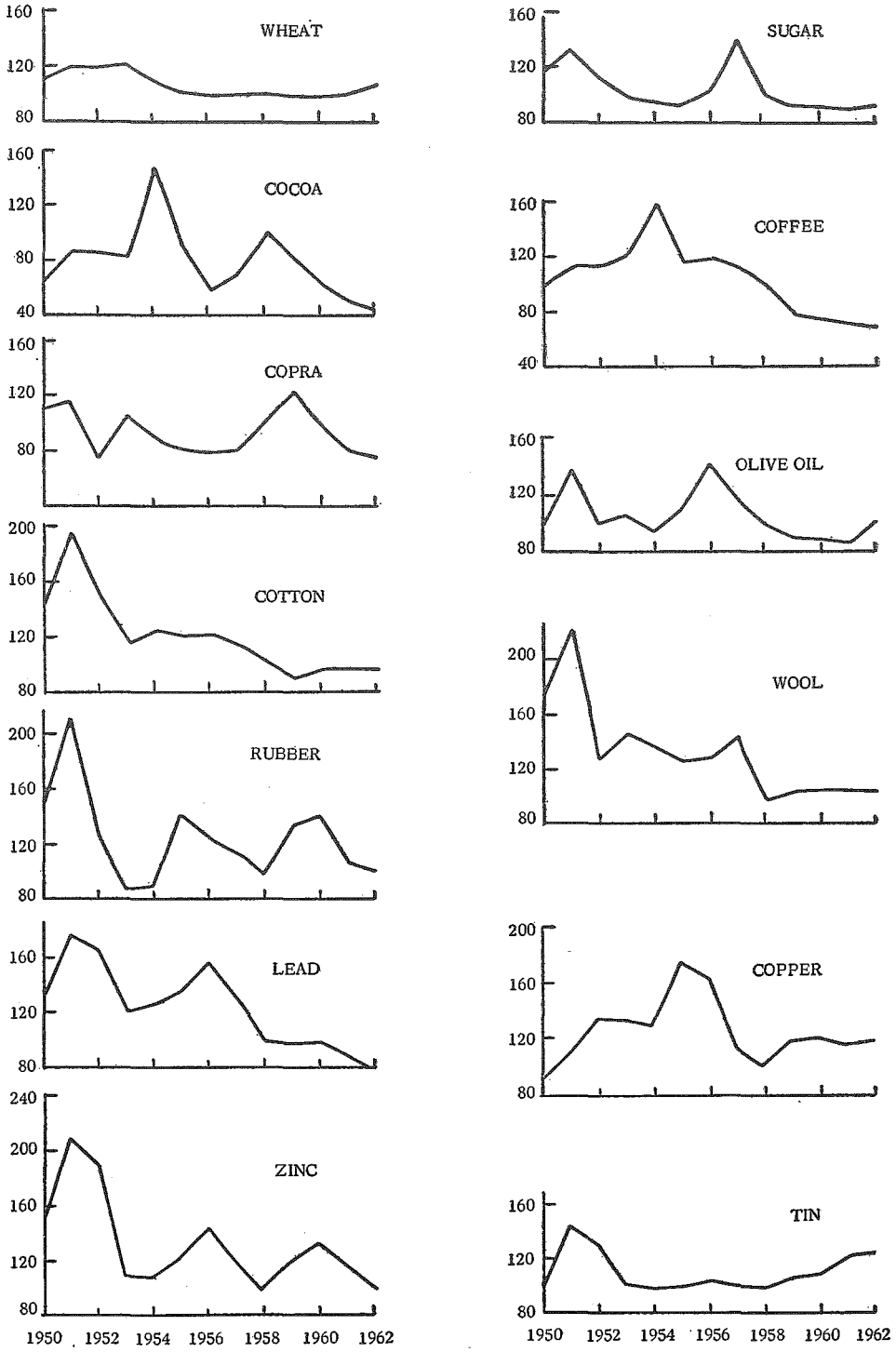
[39] Fluctuations on individual markets and for individual types of each commodity have been wider and more erratic than those for the indices which reflect average movements; to this extent chart 2-2 under-represents the degree of recent instability.

[40] *See* United Nations, *World Economic Survey, 1958*, chapter 1.

[41] Some of these movements were examined in detail in "Impact of Fluctuations in Economic Activity in Industrial Countries on International Commodity Trade" (mimeographed document E/CN.13/L.68).

Chart 2-2. Price Indices of Selected Primary Commodities in International Trade, 1950-1962[a]

(1958 = 100)

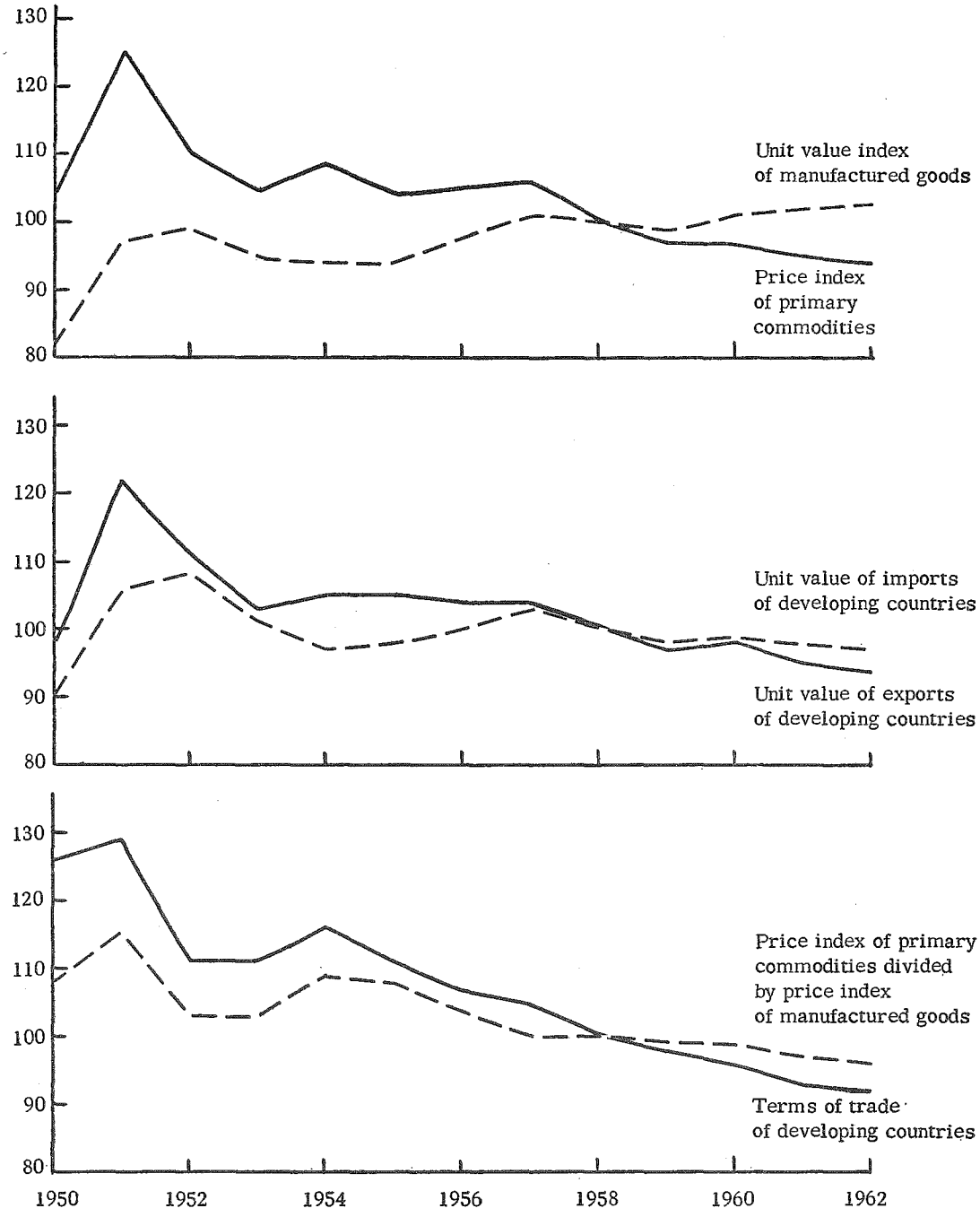


Source: Bureau of General Economic Research and Policies of the United Nations Secretariat, based on data from the Statistical Office of the United Nations.

[a] Indices based on price quotations for various grades of each commodity weighted by the value of exports in 1959.

Chart 2-3. Selected Price and Unit Value Indices, 1950-1962

(1958 = 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*.

internationally traded primary commodities and manufactured goods have been broadly paralleled by fluctuations in the prices of exports and imports, respectively, of the developing countries. For these countries, in other words, the declining ratio of the world export price of primary commodities to that of manufactured goods has clearly implied a deterioration in their terms of trade. In the absence of an offsetting rise in export quantum, falling export price has usually meant falling export proceeds. The deterioration in the terms of trade has thus nullified a good part of the increment in foreign exchange made available in recent years through external loans and grants, and to the extent that countries have been compelled to draw down their reserves to meet deficits in external accounts, their vulnerability to short-period fluctuations has been increased.

Since exported primary commodities generally account for a large proportion of total production in the under-developed countries and contribute a significant part of the national income, instability in commodity markets has grave repercussions throughout their economies. Unless counterbalanced by governmental measures, fluctuations in export earnings lead to corresponding variations in domestic incomes, causing hardship to producers and distorting the pattern of consumption and investment. In the wake of falling export prices and export proceeds, national income tends to fall and, given the heavy dependence of most under-developed countries on customs duties as sources of revenue, government income also suffers. The impact on incomes and expenditure thus tends to be adverse for both the general public and government, and the result may be a reduction in both consumption and investment. In the face of a decline in the purchasing power of export proceeds, moreover, governments are often forced to cut back imports. When this involves a reduction in imports of machinery and equipment and other strategic goods—the wherewithal of capital formation for which under-developed countries depend largely on imported supplies—plans for economic development are inevitably jeopardized.

To stabilize the prices of primary products and the incomes of primary producers at the national level, governments have made use of a wide variety of measures, ranging from licensing the acreage under cultivation to interposing an official agency or fund to absorb external fluctuations and thereby insulate domestic producers from the harmful effects of instability. In general, marketing boards and similar trading agencies created for this purpose assume full responsibility for the purchase and physical handling of the produce within the country and its sale in foreign markets. While the producers are paid a fixed price—usually announced at the beginning of the season—the profits or losses resulting from changes in export prices remain with the boards. Stabilization funds, though serving an essentially similar purpose, do not generally engage in the physical handling of the commodities; their operations are based on a system of "levies" and "premiums" on exports, through which they endeavour to smooth out short-term fluctuations in prices on external markets. In many under-developed countries governments also make use of the conventional instruments of commercial policy for internal stabilization purposes—variable export taxes or exchange rates, for example. Some primary exporting countries tend to favour long-term bilateral contracts with major importing nations as an additional instrument of stabilization.[42]

There are, however, serious limits to what can be accomplished in stabilizing primary commodity markets through national policies alone. With few exceptions, the primary exporting countries do not, even as a group, dominate the markets for the commodities they export and the actions of individual countries—aimed at mitigating the effects of instability in primary commodity markets on the domestic economy—do little or nothing to prevent or counteract instability on the world market or, by the same token, to improve exporters' terms of trade. In most instances, indeed, competition among exporting countries tends to intensify when productive capacity runs ahead of current requirements. In general, experience suggests that the structure of primary commodity markets is such that success in achieving stability depends on co-operation not only among the exporters but also of the principal importing countries.

Though the effect of market instability is insignificant in most importing countries—compared to its effect in exporting countries—most consumers and industrial users of primary commodities regard it as a disadvantage and a potential source of embarrassment and loss. This is one of the reasons why, in competition with factory-made substitutes, the natural commodities have been generally losing ground in the post-war period. These considerations suggest that there is a strong case for a co-ordinated international approach to the problem of instability. A great advantage of an international approach is that it can seek to reconcile the interests of exporting and importing countries and thus preclude the possibility of one country increasing its own stability at the cost of greater instability for others. By and large, the international approach is likely to be more conducive to the adoption of an adequate time horizon: it is easier for individual countries to forgo rather than exploit apparent short-run advantages when they are given greater assurance of their longer-term interests.

INTERNATIONAL ACTION

The importance of the orderly expansion in primary commodity trade for the economic progress of the developing countries has figured prominently in all forums dealing with international economic problems. Through various resolutions, and studies prepared in fulfilment of them, the General Assembly and the Economic and Social Council have repeatedly drawn attention to problems in the field of international trade in primary commodities, to their implications for the developing countries and to policies that might alleviate or overcome them. The Commission on International Commodity Trade (CICT) was constituted by the Economic and Social Council in 1954 as an active instrument for keeping a close watch on developments and problems in world trade in primary commodities. The Interim Co-ordinating Committee for International Commodity Arrangements (ICCICA) has been responsible for convening commodity study groups, for making recommendations in regard to the calling of United Nations conferences for negotiating commodity agreements, and

[42] *See* "Measures to Deal with Fluctuations in Primary Commodity Markets: Replies of Governments to Questionnaire Circulated by the Secretary-General" (mimeographed document E/CN.13/L.69 and addenda 1-3); they are also discussed in United Nations, *World Economic Survey, 1958*, chapter 2. *See also* "The Role of Marketing Boards for Export Crops in Developing Countries" (E/CN.13/50-CCP 62/21) and "Commodity Stabilization Funds in the French Franc Area" (E/CN.13/51-CCP 62/22).

for undertaking the co-ordination of activities of study groups and councils administering commodity agreements.

A great deal of attention has also been paid to world trade in primary commodities by the specialized agencies of the United Nations. The General Agreement on Tariffs and Trade (GATT) has sought ways and means to bring about the removal or lowering of quantitative and tariff barriers to trade in primary commodities, particularly since 1958 when it launched a special Programme for the Expansion of International Trade. Working to the same end has been the International Monetary Fund (IMF), which in addition to providing short-term finance to cover balance of payments deficits, has encouraged the adoption of policies leading to the elimination of payments restrictions and discriminatory exchange rate practices. The Food and Agriculture Organization of the United Nations (FAO) has devoted considerable energy, both through its own Committee on Commodity Problems and in collaboration with the CICT and other United Nations bodies, to seeking solutions to difficulties standing in the way of stability and growth in world trade in agricultural commodities.

Since the factors affecting production, consumption and trade often differ considerably from commodity to commodity, the specific details of international measures for the stabilization of primary commodity markets have generally been worked out on a commodity-by-commodity basis. In each case such work has involved research and inter-governmental consultation, leading in appropriate circumstances to the preparation of a suitable framework for an international commodity agreement to be administered by a specialized body.

Where no formal inter-governmental agreement has been worked out, the problems of the commodity may be dealt with by a commodity study group. Intergovernmental study groups exist at present for tea, cocoa, coffee, cotton, lead and zinc, rubber and wool. The Food and Agriculture Organization of the United Nations has also sponsored a number of "groups"—on grains, citrus fruits and coconut and coconut products—as well as units such as the Dairy Products Panel and the Consultative Sub-committee on the Economic Aspects of Rice which perform similar functions.

These study groups have been doing valuable work in the compilation of statistical data on a uniform basis, in promoting standardization and in the dissemination of information about various economic and technical aspects related to trade in the commodity in question. This process of wider dissemination of information concerning trends in production, trade and consumption has itself helped in promoting market stability. At regular intervals, most study groups undertake reviews of the current situation and the short-term prospects for the commodity under their jurisdiction. Even though such reviews are for information rather than for regulation, they may lead to inter-governmental consultation, in the light of which participating countries may adjust their domestic policies with regard to the particular commodity. Attention is also devoted to the analysis of longer-term trends; for this purpose, the study groups are keenly interested in the development of long-term projections for individual commodities, either within their own organizations or elsewhere in the United Nations family.[43] Further, a major function of the study groups is to explore the possibility of more formal intergovernmental action for stabilizing world trade in the commodity concerned.[44]

While informal or non-binding action, such as that undertaken within the framework of a study group, serves a useful function, its impact is by no means comparable with that of a formal arrangement, especially when this involves joint acceptance and operation by importing as well as exporting countries in the form of an international commodity agreement. Such international agreements are currently in force for wheat, sugar, tin and olive oil, each being administered by an international council comprising participating Governments. An agreement for coffee, negotiated in 1962, is now awaiting ratification, and preparations are being made for a cocoa agreement.[45]

The International Wheat Agreement, concluded in 1949 and revised in 1953, 1956, 1959 and 1962,[46] is based upon the principle of multilateral long-term contract under which importers and exporters accept certain obligations related to the market price. A new price range was agreed to for the Agreement that came into force in July 1962—$1.62½ to $2.02½ per bushel for No. 1 Manitoba northern wheat, instead of the previous range of $1.50 to $1.90. When market price is below the maximum, importers undertake to buy a specified proportion of their total commercial purchases from exporting members; within the price range exporters undertake to supply importing members with all their requirements; when market price exceeds the maximum, exporters undertake to supply quantities of wheat proportionate to the amounts purchased by importing members in previous years.

The application of the multilateral contract principle has been facilitated by the fact that, though wheat is produced in several types and qualities, it has been technically possible to operate on the basis of a single pair of prices. The effectiveness of the Agreement was increased in 1959 by the accession of the United Kingdom—a major wheat importing country that had not participated in the 1953 or 1956 Agreements—and in 1962 by the accession of the Union of Soviet Socialist Republics, a large exporter. Notwithstanding this enlargement in the scope of the Agreement, a substantial part of international trade in wheat—particularly that representing gifts and loans under surplus disposal programmes or other bilateral arrangements—still lies outside its provisions. Moreover, the stabilizing effect of this Agreement, as of the one it superseded, depends to a large extent on the effectiveness of internal controls in the exporting countries, especially in circumstances in which domestic support prices are at levels that induce the production of excess supplies.

[43] Of particular relevance in this connexion is the research being carried out as part of the work programme of the CICT dealing with prospective demand for and supply of various primary commodities, agricultural and non-agricultural. *See* Food and Agriculture Organization of the United Nations, *Agricultural Commodities—Projections for 1970* (Rome, 1962) and "Prospective Demand for Non-agricultural Commodities: Problems of Definition and Projection Methodology" (United Nations mimeographed document E/3629—E/CN.13/49).

[44] *See* the United Nations mimeographed document prepared by ICCICA, "1961 Review of International Commodity Problems" (E/3508), paragraphs 11 to 19.

[45] The history of international commodity agreements actually goes back to the inter-war years. For the texts of the pre-war agreements, *see* International Labour Office, *Intergovernmental Commodity Control Agreements* (Montreal, 1943). For a brief review, *see* United Nations, *Commodity Trade and Economic Development* (Sales No.: 54.II.B.1), chapter 4.

[46] United Nations, *United Nations Wheat Conference, 1962* (Sales No.: 62.II.D.2).

The International Sugar Agreement, which was signed in 1953 and renegotiated in 1958,[47] sought to regulate the movement of sugar on to international markets through a system of export quotas. A basic quota was negotiated for each exporting country; it covered all trade in sugar other than that conducted under preferential arrangements, most notably the Commonwealth Sugar Agreement and the United States Sugar Act. The effective size of the quotas was determined from time to time in the light of world sugar prices; quota restrictions were withdrawn when the world price rose above a certain level, but as price declined quotas were made progressively smaller. For the protection of importers and for avoiding unforeseen shortages, the Sugar Agreement provided for the retention by exporting countries of minimum stocks amounting to 12.5 per cent of their basic export tonnages at the beginning of the crop year. Although a substantial part of world trade in sugar is carried on under preferential arrangements, consultations among Governments in the International Sugar Council generally succeeded in maintaining an orderly relationship between the flows. The termination of trade relations between Cuba and the United States, however, altered the pattern of sugar movements so radically that the regulatory portions of the Agreements became inoperative and lapsed. Before they can become operative again, new quotas will have to be negotiated. A conference is to be convened in 1963 to consider a protocol continuing the Agreement in its present form.

The International Coffee Agreement that was negotiated in 1962 also provides for basic export quotas.[48] These quotas will be revised from time to time by an International Coffee Council—which is to be established when the Agreement is ratified—on the basis of estimated world imports of coffee. To prevent non-member producing countries from increasing their exports at the expense of members, imports of coffee by members from non-members will be regulated by the Council. Perhaps more important in the long run are the means made available for increasing the flexibility of the system: these include quarterly quota adjustments, freedom to export—outside the quota—to "new" markets in which coffee consumption is low, review by the Council of price scales and stock policies, adjustment of production policies and the mobilization of assistance to ease the burden of such adjustment. The Agreement thus recognizes the threat to stability implicit in the further building up of surplus stocks.

The International Tin Agreement, which came into force in 1956 and was subsequently revised by the United Nations Tin Conference held in 1960, rests on the mechanism of buffer stock operations, coupled where necessary with export controls.[49] Provision is made for producing countries to contribute to the International Tin Council's buffer stock specified amounts of tin metal and cash. The current Agreement also permits borrowing by the Council for the purposes of financing the buffer stock on the security of tin warrants held by it. Operations of the buffer stock are designed to hold the world market price between the upper and lower price limits of a specified range which is divided into three sectors. "The Manager of the Buffer Stock must sell tin when the price is at or above the ceiling and may sell tin when it is in the upper sector; similarly he must buy tin when the price is at or below the floor and may buy tin when it is in the lower sector. When the price is in the middle sector he may neither buy nor sell tin unless the Council decides otherwise."[50] Once the tin in stock has exceeded a certain level, the Council is authorized to impose quota restrictions on exports from producing countries in order to maintain the price.

Obviously, the buffer stock principle can be applied only to commodities which are not too difficult or too expensive to store. For effective stabilization, the stocks and finance available would have to be large enough to offset upswings in price as well as downswings; moreover, the major exporting and importing countries would have to refrain from actions that would interfere with its operation. Notwithstanding such problems, the GATT Panel of Experts, looking into outstanding trade problems in 1958, considered the principle to contain "certain decided merits". Unlike the export quota arrangements which might introduce an undesirable rigidity into world production and trade—by making it more difficult for a low-cost exporter to expand his output at the expense of a higher-cost producer, for example—the buffer stock principle contains elements of flexibility. As the Panel of Experts put it, "It can be operated even if some importers and exporters are not members. It does not require extensive governmental control of trade in the product, and it allows competition in the market as between low-cost and high-cost producers. It exercises its stabilizing influence by performing the essentially useful function of carrying physical stocks from times when they are not so much wanted to times when they are scarce and expensive".[51] However, the fact that a number of important consuming countries—including, in particular, the United States—are not parties to the Tin Agreement does carry implications for its working. It is noteworthy that the United States, which possesses a very large strategic stockpile of tin, has undertaken to arrange that disposals of surplus metal are made in quantities and at prices that will not unduly disturb the international market.

In contrast to the other commodity agreements, the International Olive Oil Agreement of 1956 did not seek to organize or regulate the market; it concentrated on stimulating consumption, standardizing quality and expanding market research.[52] These aims also loom large in the 1963 Agreement that has just superseded the original one.[53] In one respect, however, the new Agreement marks a significant change; it authorizes the International Olive Oil Council to receive regular information about olive oil "balance sheets"—that is, estimates of surpluses and deficits—from exporting and importing countries with a view to facilitating direct negotiations between them.

[47] United Nations, *United Nations Sugar Conference, 1958* (Sales No.: 60.II.D.2).

[48] United Nations, "International Coffee Agreement, 1962" (E/CONF.42/7). As at the end of April 1963, the International Coffee Agreement had not been ratified by the minimum number of Governments required to bring it formally into effect. The international market was still being regulated informally under the form of producer arrangement which was first instituted in 1959.

[49] United Nations, *United Nations Tin Conference, 1960; Summary of Proceedings* (Sales No.: 61.II.D.2).

[50] *Ibid.*, paragraph 18.

[51] General Agreement on Tariffs and Trade, *Trends in International Trade* (Geneva, 1958), paragraph 222.

[52] United Nations, "International Agreement on Olive Oil, 1956, as amended by the Protocol of 3 April 1958" (E/CONF.19/9).

[53] United Nations, "International Olive Oil Agreement, 1963" (E/CONF.45/4).

OUTSTANDING ISSUES

While the international measures adopted in the post-war years have undoubtedly been useful in reducing instability in a number of commodity markets, the fact remains that only a very small part of the world trade in primary commodities is at present covered by formal commodity arrangements. The number of such arrangements has not yet reached even the half-dozen mark and in the case of one commodity agreement—namely, that for wheat—the bulk of the exports originate in the high-income countries. From the viewpoint of the developing countries, thus, the results have been far from spectacular.

An important reason for the limited nature of the achievement lies in the intrinsic complexity of the problem. As already noted, there are vast differences among individual primary commodities in respect of the difficulties they face in international trade. The issues involved in each case have had to be explored and assessed separately—a lengthy process, requiring patience as well as considerable technical knowledge, especially when there are conflicting interests to reconcile. The very virtue of a system that has required basic accord between the major exporting and importing countries has, in the opinion of the GATT Panel of Experts, "probably been one of the reasons which have impeded the conclusion of international commodity agreements since the war. It has been difficult to find agreement between conflicting interests of exporters and importers. To some extent this may have been due to a short-sighted attitude on the part of governments. Importing governments have tended to see little advantage in such agreements at times when the price of the product was low, which is of course the precise time when exporting governments have seen most advantage in an international scheme. At times of high prices importing countries have often wished for control, while exporting countries have been happy to sit back and enjoy their prosperity."[54]

The long-run interests of the countries concerned, however, are not always diametrically opposed. Reasonable and stable prices have attraction for consumers as well as for producers; importing countries see no more advantage in violent fluctuations than do exporting countries. It is generally recognized that stabilization does not imply fixing prices on anything like a "permanent" basis. Rigidity is clearly out of place in a dynamic world where structural changes are constantly occurring. The periodic renegotiation of an existing commodity agreement—essentially a mechanism for assessing the impact of long-term factors on the demand and supply of the commodity in question—reflects acceptance of this salutary principle. Conviction is also growing that approaches aimed at reaping short-run gains for one side must give way to those designed to serve the long-run interests of all the countries concerned; the actions of various producer groups as well as discussion at recent international commodity conferences attest to this.[55]

The interest in formulating an adequate international policy for primary commodity trade has gained considerable momentum in the past few years. A number of new ideas and modifications of older proposals have been put forward in international discussions. These have not in general aimed at supplanting the existing arrangements but rather at supplementing them through approaches from different angles.

It has been suggested, for example, that one possible way of enlarging the area of success would be either to undertake the simultaneous negotiation of a number of international agreements involving single commodities or to negotiate single multi-commodity agreements.[56] The rationale for this suggestion is that since countries are bound to figure as exporters in some cases and as importers in others, they are likely to accept more readily the balance of advantages and disadvantages. On the other hand, it has been argued that the technical difficulties, which are already great in the case of single commodity agreements, might prove too formidable if attempts were made to reach multi-commodity accords.[57]

Another proposal which has formed the subject of discussion in a number of international meetings aims at a new type of world-wide commodity agreement. It has been suggested that the advanced countries should conclude arrangements for their imports of primary commodities at a standard price, equal to their domestic production price. Since the latter is almost always higher than the current world price, the arrangement would operate to the benefit of the exporting countries and thus, in many cases, the developing countries. Initially, such arrangements might be made for world trade in cereals, to be extended eventually to other commodities. Since high prices would presumably stimulate production, the scheme envisages, as a corollary, a centralized system of distributing food surpluses in the form of aid to developing countries.[58] The scheme has been discussed by the Council of Ministers of the European Economic Community; but, tied as it is to larger problems confronting members of the Community—particularly the question of a common agricultural policy—it has yet to be spelled out in detail.

An earlier scheme for offsetting the effects of declining agricultural prices on world markets was put forward by the Economic Commission for Latin America at the Quintandinha session of the Organization of American States in 1954.[59] This involved the imposition of import duties by industrial countries on primary commodities exported by the developing countries. The duty would in each case raise the price of the commodity to some predetermined level and its proceeds would be made over to the exporting country, not to be paid to the factors engaged in producing the commodity but to be used for general development purposes. Some of the problems posed by such a scheme —neutralizing its production-incentive effects and the consequences of competition among exporting countries, for example—have been taken up again in recent dis-

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[54] General Agreement on Tariffs and Trade, *Trends in International Trade,* paragraph 212.

[55] The growing appreciation of the value of relatively low and stable prices in holding markets against substitutes is referred to in the section above on Market opportunities for primary commodities in developed countries.

[56] *See,* for example, United Nations, *Commodity Trade and Economic Development,* paragraphs 178 to 183.

[57] *Ibid.* Also General Agreement on Tariffs and Trade, *Trends in International Trade,* paragraph 213.

[58] General Agreement on Tariffs and Trade, *Proceedings of the Meeting of Ministers: 27-30 November 1961* (Geneva), statements by the Representatives of France, Mr. Wilfred Baumgartner and Mr. André Philip.

[59] United Nations, *International Co-operation in a Latin American Development Policy* (Sales No.: 54.II.G.E.).

cussions of methods of stabilizing the terms of trade of developing countries.[60]

Another proposal which has engaged a good deal of international attention in recent years involves the stabilization of export earnings rather than of the prices of exported commodities. This stems from the belief that measures for stabilizing prices of specific commodities, though desirable, are by no means sufficient for the economic progress of the developing countries. This depends much more on total foreign exchange earnings, and international action, it has been contended, would be particularly helpful in offsetting sudden reductions in export receipts. The feasibility of a system of compensatory financing which would offset the adverse effects of large fluctuations in the export proceeds of the developing countries on their balance of payments has been explored both in the United Nations and in the Organization of American States. Proposals regarding the establishment of a "development insurance fund", applicable to export proceeds either on an aggregative or an individual commodity basis, have been examined in the CICT.[61] And earlier this year, the IMF decided to extend compensatory assistance by liberalizing the drawing rights available to its members for meeting temporary shortfalls in their export earnings.[62]

There is also a growing appreciation that new commodity arrangements on an international basis need to be matched by liberal commercial policies on the part of the advanced countries in respect of imports from the developing countries.[63] Discussions in international forums have repeatedly emphasized the need for appropriate national policies to supplement international measures. In particular, they have pointed out that domestic policies in one country may easily lead to harmful repercussions in other countries. In this connexion, the FAO has made a significant contribution towards a code of sound practice for agricultural policies in the shape of "Guiding Principles on National Agricultural Price Stabilization and Support Policies" circulated to its member governments.[64]

In one respect at least, there are indications that national policies may be strengthened through international action. The Commission of the European Economic Community envisages the establishment of a common production fund with an annual income equivalent to $25 million, to which members and the associated states of the Community would contribute. One object of this fund would be to provide loans to stabilization funds in the associated overseas countries and territories, set up to finance programmes for the stabilization of their export returns.[65]

The requirement for governmental action in the field of trade goes far beyond the problem of stabilization of primary commodity markets. Stabilization measures help to meet one set of difficulties facing the developing countries with their heavy dependence on primary commodity trade. But the problem of instability needs to be tackled indirectly as well—through expansion of trade on the one hand and diversification on the other. In this sense, stabilization policies are part of the overall strategy of economic development.

[60] United Nations, *Economic Bulletin for Latin America*, vol. VIII, No. 1, March 1963.

[61] See *Official Records of the Economic and Social Council, Thirty-sixth Session, Supplement No. 6—Report of the Commission on International Commodity Trade on its Eleventh Session.* The background to these proposals is summarized in the final section of this chapter.

[62] *See* International Monetary Fund, *Compensatory Financing of Export Fluctuations* (Washington, D.C., 1963).

[63] The long-term aspects of this are discussed earlier in this chapter.

[64] *See* Food and Agriculture Organization of the United Nations, *National Agricultural Price Stabilization and Support Policies* (Rome, 1961).

[65] Food and Agriculture Organization of the United Nations, *Agricultural Commodities and the European Common Market* (Rome, 1962), page 13, and European Economic Community Commission, *Fifth General Report on the Activities of the Community* (Brussels, 1962), pages 191 and 192.

International compensatory financing

Concern over the adverse effects on the balances of payments and development efforts of primary exporting countries of fluctuations in the prices and proceeds of primary commodity exports has led to various proposals for compensatory action to mitigate the effects of these fluctuations.

In 1953, a group of experts, reporting on *Commodity Trade and Economic Development,*[66] considered certain schemes for automatic compensation, in particular, a suggestion advanced by a member of the group, F. G. Olano, that means be provided for countries to insure themselves against major declines in their terms of trade. The group concluded:[67] "We cannot advise giving priority to this way of solving the problem of unstable prices and incomes. . . . However, should nations prove unable to agree on other arrangements for moderating either the excessive fluctuations of prices and incomes or the ill consequences of these fluctuations then they might do well to take a second look at automatic compensatory schemes."

The possibility of an automatic compensatory scheme was also mentioned in *World Economic Survey, 1958* in connexion with a discussion of international commodity policies. In the words of the *Survey:* "Since the possibility of declines in export prices may be viewed as a type of risk, the question arises whether the principle of insurance might not usefully be applied in this field. . . . The scheme could . . . also . . . insure against the loss of export proceeds due to reasons other than a decline in . . . prices."

At the end of 1959 the General Assembly adopted a resolution[68] requesting the Secretary-General to appoint a group of experts to help the Commission on International Commodity Trade to examine the feasibility of establishing machinery "designed to assist in offsetting the effects of large fluctuations in commodity prices on balances of payments, with special reference to compensatory financing . . .".

The experts, who met in early 1961, examined the nature and magnitude of the problem and the adequacy of existing instruments, including the International

[66] United Nations publication, Sales No.: 54.II.B.1.

[67] *Ibid.*, paragraph 240.

[68] Resolution 1423 (XIV).

Monetary Fund, and reported to the Commission: "The compensatory financing activities of the IMF will grow in importance and... long-term capital transfers may also take on more of a compensatory character. Nevertheless . . . these activities are not likely to provide a complete answer to the problem . . .".[69] Then, after considering a number of automatic compensatory arrangements, the experts suggested the establishment of a Development Insurance Fund (DIF). The DIF would provide for partial but automatic compensation of export shortfalls below the average of the immediately preceding years. These compensatory payments would be financed by means of a system of premiums paid by participating countries and varying in proportion to their trade and national income. Since export instability is associated most frequently with low incomes, the most vulnerable countries as a group would tend to draw more out of the DIF than they contributed in premiums, while the more advanced countries, with higher incomes, would tend—again, as a group—to contribute more than they drew in compensation. The schemes would thus have some of the attributes of a system of social insurance.[70] One of the means through which income transfers might be expected to occur was the suggested "contingent loan": compensation to a country experiencing a shortfall would be paid out by the DIF wholly or partly in the form of a loan that was repayable only to the extent that export earnings in the years immediately following rose above the trend or norm.

The experts' report was discussed by the CICT at its ninth session in 1961. The Commission stressed the desirability of offsetting the effects of temporary reductions in exports proceeds, inquired whether this could be done through existing forms of compensatory action, and raised a number of questions regarding the suggested development insurance fund and its operation. Interest was also expressed in the possibility of applying DIF principles to the stabilization of the proceeds of the exports of single commodities.[71]

Two studies were prepared by the United Nations Secretariat bringing together information needed to consider the questions raised by the Commission—"Stabilization of Export Proceeds Through a Development Insurance Fund"[72] and "A Development Insurance Fund for Single Commodities".[73] These studies appeared early in 1962. At about the same time a group of government experts, called by the Organization of American States (OAS) to consider the problem of short-term fluctuations in export receipts, issued a report suggesting the establishment of an international stabilization fund.[74] Like the DIF, this Stabilization Fund would also compensate automatically for shortfalls in export receipts, but only in the form of completely repayable loans.

In May 1962, the CICT resumed its consideration of general compensatory measures at its tenth session, and of the application of DIF principles to trade in single commodities at a meeting held jointly with the Committee on Commodity Problems of the Food and Agriculture Organization. There was general agreement at the latter meeting that the DIF mechanism "could not be regarded as a practical or desirable solution to the problem" of instability in export earnings from individual commodities.[75] It was recognized, however, that the principle of compensation as such had considerable merit: judiciously applied it might succeed in preserving the freedom of the market as an indicator of where resources could most efficiently be allocated, while at the same time counteracting disruptive income effects of short-term fluctuations which are irrelevant to the question of resource allocation.

After discussing the more general problem of stabilizing total export receipts in the light of studies of the United Nations Secretariat and the Organization of American States experts, the Commission decided to form a Technical Working Group of government experts to examine both the scheme for a Development Insurance Fund and the scheme for an International Stabilization Fund bearing in mind the assistance that the International Monetary Fund might provide primary exporting countries to offset short-term fluctuations in their export earnings. The Technical Working Group was asked to prepare a draft agreement to illustrate a specific mechanism for short-term compensatory financing embodying DIF principles and also to inquire "whether and to what extent a scheme for compensatory financing [might] be adapted to offsetting the long-term declines in export receipts of primary exporting countries and the deterioration in their terms of trade".[76]

The Technical Working Group subjected both the DIF and the OAS schemes to a careful examination and reported on the results in January 1963.[77] It carried out a number of empirical exercises, applying the basic principles underlying each of the schemes to historical trade data, choosing specific values for the key variables that would have determined the amount and type of compensation and the way it might have been financed. It did not recommend any particular scheme but presented hypothetical data showing the detailed distribution of compensation and contributions for a few examples, using what were considered the most realistic values for the calculation of trend or norm of export earnings, for the proportion of any actual shortfall that would be compensated and for the terms on which such compensation would be repaid.

The DIF schemes worked out in this way were shown to involve transfers among participating countries, reflecting the fact that over the period 1953-1961 for which the calculations were made, there were some countries whose export earnings, after a decline which would have entitled them to a compensatory loan, were not buoyant enough in the three following years to require them to repay the whole of the loan. In general, these recipient countries were among the lower-income primary exporters. Depending on the method of assess-

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[69] United Nations, *International Compensation for Fluctuations in Commodity Trade* (Sales No.: 61.II.D.3), paragraph 82.

[70] *Ibid.*, chapters 4 and 5.

[71] *Official Records of the Economic and Social Council, Thirty-second Session, Supplement No. 6,* paragraphs 113 to 119.

[72] Document E/CN.13/43.

[73] Document E/CN.13/45.

[74] Organization of American States document 59, Rev. 18, April 1962, *Final Report of the Group of Experts on the Stabilization of Export Receipts,* and document 64, Rev. 4, 3 April 1962, *Proposed Articles of Agreement of the International Fund for Stabilization of Exports Receipts* (Washington, D.C.).

[75] *Official Records of the Economic and Social Council, Thirty-fourth Session, Supplement No. 6,* paragraph 70.

[76] *Ibid.*, paragraphs 53 to 56.

[77] "Compensatory Financial Measures to Offset Fluctuations in the Export Income of Primary Producing Countries" (document E/CN.13/56).

ing premiums, these transfers would have come largely from the higher-income industrial countries.

In contrast to the DIF type of scheme which involves transfers—either through the final settlement of the claims of countries experiencing shortfalls or through the writing off of contingent loans when exports do not recover rapidly enough from such a decline—the OAS scheme involves only loans that are fully repayable. The Technical Working Group showed that the destabilizing effect that might arise from the obligation on borrowing countries to repay their loans within a given period, irrespective of their export performance, might be reduced by appropriate choice of norm from which shortfalls would be measured and by adjustment of the time period over which repayment had to be completed. It was also suggested that special re-financing arrangements might be made to assist countries that were under an obligation to repay compensatory loans in a year in which they were experiencing another export shortfall.

The Group noted that under the OAS type of scheme, since repayment of all compensatory loans would be required within a few years, the Stabilization Fund would be essentially a revolving fund for short-term lending. Not entailing transfers, it could be financed through once-and-for-all capital subscriptions. The DIF scheme, on the other hand, involved the settlement of insurance claims either by final compensatory payment or by a loan which would be fully repaid only if the claimant's exports rose sufficiently above trend in the ensuing few years. The financing of a Development Insurance Fund would require the payment of premiums on a continuing basis. Designed to smooth out short-term fluctuations around a trend, the OAS type of scheme would provide significant and assured assistance to primary exporting countries, but to a smaller extent than a DIF scheme with corresponding compensatory variables.

Under both the DIF and OAS schemes, access to compensatory financing would be automatic in the event of export shortfalls, and, assuming sufficient resources in the insurance or stabilization fund, claimants would not have to wait on a decision of any external authority to obtain relief: they would be certain of receiving some assistance and to that extent relieved of the necessity of cutting back imports. The advantages of this—both from the point of view of maintaining the pace of development in the primary exporting countries and from the point of view of partner countries and the growth of world trade—were noted by the Group, though it was also observed that the availability of such credit would presumably be taken into account by other lending agencies so that receipts from such a compensatory fund would not necessarily represent an equivalent net increment in external resources at the disposal of the eligible exporting countries.

The Technical Working Group left open the question of adapting the proposed short-term compensatory schemes to long-term purposes. It pointed out that the contingent loan provisions of the DIF scheme itself contained an element of longer-term compensation: claimant countries would have part of any decline in export proceeds made good by the DIF transfer if their exports failed to recover. Beyond that it was difficult to conceive of a practical scheme to keep a country's export earnings on any given trend for a long period. Theoretically, it would be easier to compensate for long-term changes in price, but to derive suitable indices which measured movements in export prices or import prices over long periods of time posed extremely difficult practical problems in a dynamic situation in which the composition of trade was constantly changing. To agree on an appropriate base from which such movements might be measured might also be difficult.

The Technical Working Group was actively assisted in its investigation by the International Monetary Fund which has been the principal international source of compensatory finance in the past. And shortly after the Group issued its report, the IMF announced some important modifications in policies and procedures in this area of its operations.[78] It stated, in particular, that it would give sympathetic consideration to an adjustment of the quotas of primary exporting countries to make them more adequate in the light of the risk and amplitude of fluctuations in export proceeds and other relevant criteria. The IMF also emphasized its readiness to assist members encountering balance of payments difficulties because of export shortfalls of a short-term character attributable to external circumstances. Such assistance would normally be limited to 25 per cent of quota, repayable in accordance with established policies. To accommodate this change, the Fund would be prepared to waive the previous limit—namely, 200 per cent of quota—set on its holdings of any member's currency. The eligibility of a member for such assistance would not be determined by a mechanical formula relating the export shortfall to past export trends; export prospects would also be taken into account as would the willingness of the member to co-operate in seeking an appropriate solution for its balance of payments difficulties.

The reports of the Technical Working Group and the International Monetary Fund were considered at the eleventh session of the CICT in May 1963. The Commission concluded that the new action by the Fund took account, to a large extent, of the desire of primary exporting countries for greater certainty about the availability of compensatory finance. The new facility provided by the Fund seemed to offer the prospect of meeting most of the financial difficulties occasioned by short-term fluctuations in export proceeds as envisaged in the Commission's analysis. It had the advantage, moreover, of being put into operation without the delay and cost that would have been attendant on the creation of some new organization to perform the compensatory function. While not excluding the possibility that other steps might have to be considered, the Commission decided to keep under review the implementation of the new IMF policies, leaving their effectiveness to be tested by experience.

Though it was recognized that the new IMF facility could be resorted to only in cases of export declines of a short-term character, would not be fully automatic and would provide time for corrective measures to be set in train, the Commission was still concerned over the possibility that a country's repayment of short-term compensatory loans might jeopardize its general development programme or specific development projects. It was suggested that one way of offsetting the adverse effects of such repayments would be the granting of long-term credits either for financing specific development projects or programmes, whose execution might be prejudiced by the repayment of the short-term loans, or for general refinancing of such loans.

[78] International Monetary Fund, *Compensatory Financing of Export Fluctuations.*

The Commission noted the Technical Working Group's analysis of the difficulties of applying compensatory techniques to longer-term changes. Without under-estimating the problems raised by the deterioration of the terms of trade of primary exporting countries, it was thought that the search for some more or less automatic means of offsetting such a trend might not necessarily lead to the most effective use of the resources available for assisting economic development. A more intensive study of the underlying problems of which these trends in exports and prices are merely reflections might yield more useful results for guiding policies and measures aimed at expanding world commodity trade and accelerating the rate of development in primary exporting countries.

Chapter 3

EXPANSION OF MARKETS FOR EXPORTS OF MANUFACTURES FROM DEVELOPING COUNTRIES

Introduction

The need for expansion of over-all exports of the developing countries and its significance for economic development has been demonstrated in chapter 1. The further case for encouraging a more rapid growth in exports of manufactures by the developing countries rests essentially on two main considerations. The first is that new sources of export earnings for the developing countries are urgently required, particularly in view of the disappointing record of primary commodity markets in recent years; and the second is that the opening up of broader markets for exports of manufactures would provide additional stimulus to industrial growth of the developing countries.

Although exports of manufactures from the developing countries have been rising more rapidly than exports of primary commodities (table 3-1),[1] the rate of expansion has been about half of that achieved by the developed countries. It will therefore be apparent that the developing countries are not even maintaining their share in international trade in manufactures, much less increasing it.

Table 3-1. Annual Rates of Growth of World[a] Exports,[b] 1955-1961

(Percentage)

Region	*Primary commodities*[c]	*Manufactures*[d]
World	3.4	7.9
Developed countries[e]	5.0	8.2
Developing countries[f]	1.6	4.3

Source: Bureau of General Economic Research and Policies of the United Nations Secretariat, based on data from United Nations, *Monthly Bulletin of Statistics*, March 1961, March and April 1963.

[a] Excluding the following centrally planned economies: Albania, Bulgaria, Czechoslovakia, Eastern Germany, Hungary, Poland, Romania, Soviet Union, China (mainland), Mongolia, North Korea and North Viet-Nam.

[b] In value.

[c] Including SITC sections 0, 1, 2, 3 and 4.

[d] Including SITC sections 5, 6, 7 and 8. Processed foods and mineral fuel are included in primary commodities.

[e] North America, western Europe (including Yugoslavia), Australia, New Zealand, Republic of South Africa and Japan.

[f] World, less centrally planned economies and developed countries.

The decline in the share of developing countries in world trade in manufactures is the result of difficulties both on the supply and on the demand side. It should be noted at the outset, however, that in many of the developing countries manufacturing industry has grown to the point at which substantial capacity is available for production for export. There is also no doubt of the rapid growth in world demand for manufactures. Thus, the gap between the potential of developing countries in expanding their exports of manufactures and their actual performance in this field poses a serious problem for international examination.

Expanded exports of manufactures are important to the developing countries not only from the point of view of the additional export earnings that may be realized from them for the financing of essential imports, but also because of the greater incentives to industrial development that they afford. In many developing countries the incomes available for expenditure on manufactures are much too small to permit the establishment of large-scale modern industries that would operate at maximum efficiency on the basis of the domestic market alone. Where such industries are nevertheless set up, with the aid of high tariffs or other means, the fact that they are limited to small domestic markets prevents them from taking advantage of economies of scale and specialization. Such industries thus find themselves in a vicious circle of high costs and low output: their costs are high because their output is too small, and their sales are small because their costs are too high.

External market opportunities are therefore vital if developing countries are to set up new industries that operate at reasonable levels of efficiency and utilize existing capacity to the fullest extent possible. This consideration has played an important part in programmes of regional economic integration, actual and planned, in many parts of the under-developed world. The opening up of new markets in the developed countries would, however, provide a much greater stimulus than could be achieved, at least in the near future, through schemes of regional integration confined to the developing countries.[2]

The urgent need for expansion of exports of manufactures from developing countries may be placed in perspective by referring to an estimate by the secretariat of the Economic Commission for Europe of the foreign trade requirements of the developing countries between 1959 and 1980. On the assumption of a per capita growth rate in the developing countries of 3 per cent, and on the basis of past experience of trends in imports of developing countries as well as in the exports of traditional commodities, it has been estimated

[1] It will be noted that the exact differential between these two rates is affected by the particular years chosen. Exports of primary commodities by developing countries have also been rising less than corresponding exports by developed countries. The latter exports, however, include increasing shipments by the United States under its various surplus disposal programmes.

[2] This can readily be seen, for example, from the fact that trade in manufactures among the Latin American countries amounts at present to well under 5 per cent of their total trade. Although the aim of regional integration in Latin America is to increase this proportion very rapidly, it is obvious that it cannot become a major influence on the industrial development of the region for some time to come.

that exports of manufactures would have to rise from about $2 billion in 1959 to some $15 billion in 1980. It is assumed that about one-third of the latter amount would be absorbed by the developing countries themselves as well as by the centrally planned economies,[3] leaving $10 billion as the amount to be absorbed by the developed private enterprise economies. The magnitude of the latter figure may be judged from the fact that the *increase* in demand for manufactures by western Europe alone would be of the order of $370 billion by 1980. Assuming that western Europe were to absorb one-third of the total exports of manufactures by developing countries in 1980—that is $5 billion—what is involved is that the countries of western Europe should be prepared to adapt their domestic industries in such a way as to be able to absorb between 1.5 per cent and 2 per cent of their *additional* domestic demand for manufactures from the developing countries. The extent of the adjustment required in other developed countries would be similarly small.[4]

[3] The problem of markets for manufactures of developing countries discussed in this chapter is applicable in the broadest sense to developed countries, both private enterprise and centrally planned. The special issues involved in trade with the latter countries are, however, discussed in chapter 5.

[4] *See* United Nations, *Economic Survey of Europe in 1960* (Sales No.: 61.II.E.1), chapter V, pages 8 and 9. The projection for 1980 also involves the assumption that capital aid provided by the industrialized countries increases *pari passu* with the rise in the import requirements of the developing countries, so that the proportion of total imports covered by aid remains at about one-eighth. It should be noted that while any estimate of this sort depends on the particular assumptions made, the broad conclusion drawn in the text would remain essentially unaltered even if the estimate were increased or decreased by a large proportion. *See also* chapter 1 of the present publication for a projection of export prospects and import requirements of the developing countries in 1970.

Characteristics of exports

COMMODITY COMPOSITION

The total value of world exports in 1960 was in the region of $126 billion,[5] of which about $70 billion, or 55 per cent, were exports of manufactures. The total exports of the developing countries were valued at about $27 billion: of this, exports of manufactures amounted to some $4 billion, corresponding to over 14 per cent of the total exports of these countries. The corresponding share of manufactures in the total exports of developed countries was 68 per cent and of the centrally planned economies 57 per cent. Of the manufactures and semi-manufactures exported by the developing countries, 36 per cent consists of metals and metal products, and 23 per cent of textiles. Most of the remaining two-fifths is concentrated in the miscellaneous group of manufactures shown in table 3-2: exports of chemicals and engineering products together account for only 12 per cent of the total.

[5] Excluding special category exports, ships' stores and bunkers and other exports of minor importance.

Table 3-2. Composition of Value of Exports, by Major Commodity Group, 1960

(Percentage)

Region	Primary commodities[a]				Manufactures[a]						
	Food	Agricultural raw materials and ores	Fuels	Total	Chemicals	Machinery and equipment	Metals	Textiles	Other manufactures	Total	Total
World[b]	17.9	17.1	9.9	44.9	6.0	21.6	9.1	4.9	13.5	55.1	100.0
Developed countries[c]	14.4	13.6	3.9	31.9	7.9	27.8	10.5	5.7	16.2	68.1	100.0
Centrally planned economies[d]	15.6	16.4	11.1	43.1	4.4	25.0	8.9	3.5	15.1	56.9	100.0
Developing countries[e]	30.0	28.3	27.6	85.9	1.1	0.7	5.0	3.3	4.0	14.1	100.0
Asia[f]	17.8	29.8	35.2	82.8	0.9	1.2	1.8	6.9	6.4	17.2	100.0
Africa[g]	35.2	42.1	4.6	81.9	1.0	0.4	11.9	1.0	3.8	18.1	100.0
Latin America	41.7	19.3	30.7	91.7	1.3	0.3	5.3	0.1	1.3	8.3	100.0

Source: Bureau of General Economic Research and Policies of the United Nations Secretariat, based on data from Statistical Office of the United Nations, *Monthly Bulletin of Statistics.*

[a] For definitions, *see* table 3-1.

[b] Including centrally planned economies.

[c] North America, western Europe (excluding Yugoslavia), Australia, New Zealand, Republic of South Africa and Japan.

[d] Including Yugoslavia.

[e] World, less centrally planned economies and developed countries.

[f] Excluding Japan, Turkey and centrally planned economies.

[g] Excluding Republic of South Africa.

Exports of manufactures and semi-manufactures are not only small in relation to the total export trade of the developing countries, but are of even less consequence in relation to total world trade in manufactures, of which they account for 6 per cent. Exports of textiles and metals, however, contribute about 15 per cent and 12 per cent, respectively, to total world trade in these commodities (table 3-3).

The one-sidedness of the commodity composition of the export trade of the developing countries is brought into sharp relief when their percentage shares are compared with those of the developed and the centrally planned countries, as shown in table 3-2. The imbalance would be still greater if the manufactured category were defined to exclude metals, exports of which are important for Africa and Latin America: metal exports reflect a relatively limited amount of processing.

The imports of manufactures and semi-manufactures of the western European countries and North America from the developing countries are set out in some de-

Table 3-3. Share of Developing Countries in World[a] Exports, by Commodity Group, 1960

Commodity group	*Percentage*
Primary commodities	41.5
Food	36.4
Agricultural raw materials and ores	35.9
Fuels	60.5
Manufactures	5.6
Chemicals	3.9
Machinery and equipment	0.7
Metals	12.0
Textiles	14.6
Other	6.5
ALL COMMODITIES	21.7

Source: United Nations, *Monthly Bulletin of Statistics*, March and April 1963.

[a] Including centrally planned economies.

tail in appendix table 3-1. This table shows the importance of developing countries to North America and western Euorpe as suppliers of certain types of manufactures and semi-manufactures. The western European countries and North America together import about 7 per cent of their total imports of manufactured and semi-manufactured goods from the developing countries. With a few exceptions, the commodities listed in this table have one feature in common, namely, that they are made from materials of which the developing countries are major producers, such as essential oils, jewellery, tropical wood, dyeing and tanning materials, chemical compounds, such as nitrates, phosphates, and the like. Only in a very few cases are they the result of specialized industrial skill and organization. In this respect they have more in common with primary commodities than with manufactures.

The percentage share of individual commodity groups in the total imports of manufactures and semi-manufactures from the developing countries into North America and western Europe is set forth in appendix table 3-1. Base metals, textiles and clothing account for 72 per cent of the imports of manufactures by the developed countries from the developing countries. Of the remaining 28 per cent, only a small proportion, consisting of such items as transport equipment, electrical and other types of machinery, manufactures of metals, etc., can be regarded as products of the most dynamic modern industries. This reflects the difficulties experienced by the developing countries in transforming their industrial structure and in breaking into the markets of the developed countries for the more advanced manufactures.

In general, it is not to be expected that total demand for processed materials would grow at a rate very different from the demand for the raw materials from which they are derived. Whether exports of processed materials rise faster or slower than exports of the corresponding raw products depends on how far there are competing facilities in the developed countries themselves. In some cases the growth of exports of processed materials has been substantially less than that of the respective raw materials. For example, metal ores and concentrates and crude petroleum do not encounter significant competition in western Europe when shipped at the crude stage. On the other hand, refined metals and petroleum are produced by the western European countries themselves from imported crude materials, and this necessarily affects the import demand for the refined minerals from developing countries. As will be seen from table 3-4, exports of refined lead, zinc and petroleum from the developing countries have been increasing less rapidly than the corresponding raw products. The situation in petroleum is particularly striking and results largely from the fact that Europe has been importing an increasing share of its petroleum requirements from the Middle East in crude form, to be processed in the rapidly expanding refining facilities constructed in western Europe itself.[6] The opposite

Table 3-4. Annual Rate of Growth of Volume of Exports of Selected Minerals from Developing Countries, 1950-1960

Commodity	*Percentage*
Bauxite	11.7
Aluminium	39.3
Lead ore	5.9
Lead metal	1.1
Petroleum, crude	10.8
Petroleum, refined	3.8
Tin concentrates	—2.7
Tin metals	—0.7
Zinc ore	4.7
Zinc metal	3.4

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

tendency has occurred in the case of aluminium, production of which, however, in the developing countries has started only recently and forms only an insignificant proportion of world supply.

Similar contrasts are observable in foodstuffs. Exports to the developed countries of chocolate and other cocoa products from the developing countries declined significantly between 1953 and 1960 while exports of cocoa beans rose slightly. On the other hand, increases in exports of certain types of canned foodstuffs have been quite high.

Only a small proportion of foodstuffs is exported by the developing countries in processed form. The value of imports into western Europe and the United States of sugar, coffee, cocoa, oil-seeds, vegetable oils and canned food was $4 billion in 1958. The proportion of these products imported from the developing countries in processed form was only 15 per cent. In some cases this is because there are major advantages in processing the commodities near the ultimate consumer, but in others there is no particular advantage of this sort. The value of imports of petroleum and petroleum products from the developing countries exceeded $5 billion in 1960, over three-fourths of which was imported in crude form.

Considering the smallness of the share of exports of manufactures from the developing countries in total world trade in manufactures, it seems unlikely that, with the exception of textiles, an increase in that share would cause any serious dislocation in the pattern of world trade or in the domestic economies of the importing countries. Most of the commodities concerned not only represent a small part of the total imports of the developed countries, but add only insignificantly to the total domestic supply. In the United States, for example, the percentage share of imports from the developing countries in the total domestic supply of goods which are important for the developing countries is

[6] It will be noted that refined petroleum and processed foodstuffs are included with primary commodities in all the tables in this chapter.

generally very small, as may be seen in table 3-5. Similar calculations for continental western Europe would probably also show very low percentage shares of imports from developing countries in total domestic supplies. In the United Kingdom, corresponding shares are probably somewhat larger because of the easier access of Commonwealth producers to the United Kingdom market, but even here they are not particularly high, except in textiles. In so far as there is a genuine problem of domestic adjustment in the developed countries in respect of imports of manufactures from the developing countries, it arises almost exclusively in textiles.

Table 3-5. United States: Ratio of Imports of Selected Manufactures from Developing Countries to Domestic Supply,[a] 1960

Commodity	*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	[b]
Machinery other than electrical	[b]

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.

[a] Domestic supply refers to the sum of production and imports less exports.

[b] Negligible.

DIRECTION OF EXPORTS

The largest buyers of manufactured goods from the developing countries are the United States and the United Kingdom. The United Kingdom buys about 27 per cent and the United States 30 per cent of the total imports of manufactured and semi-manufactured goods from these countries into North America and western Europe combined; the same countries account for only 17 per cent and 22 per cent, respectively, of total imports of manufactures from all sources into North America and western Europe, as may be seen from table 3-6. On the other hand, the general tendency among continental European countries is to absorb a somewhat smaller proportion of manufactures from developing countries than would be expected from the over-all size of their imports of manufactures. The share of total imports purchased from the developing countries is, however, small in all cases: even in the United Kingdom, only about 16 per cent of total imports of manufactures is obtained from the developing countries.

Table 3-6. Imports of Manufactures into Developed Countries, 1960

(Percentage)

Region and country	*Distribution of imports of manufactures from all sources*	*Distribution of imports of manufactures from developing countries*
North America	29.8	32.4
Canada	8.3	2.2
United States	21.5	30.2
European Economic Community	39.5	35.2
Belgium-Luxembourg	5.3	9.3
France	8.4	7.3
Germany (Federal Republic)	13.5	13.3
Italy	6.3	4.2
Netherlands	6.0	1.1
European Free Trade Association	30.7	32.4
Austria	1.9	0.1
Denmark	2.4	0.4
Norway	1.9	1.2
Portugal	0.7	0.1
Sweden	3.8	2.3
Switzerland	3.0	1.4
United Kingdom	17.0	26.9
TOTAL IMPORTS OF MANUFACTURES	100.0	100.0

Source: Organisation for European Economic Co-operation, *Foreign Trade Statistical Bulletins*, series C, "Trade by Commodities", January-December 1960.

NOTE: The f.o.b. values for Canada and United States have been adjusted by adding 10 per cent of these values to make them comparable with the c.i.f. values for western Europe.

From table 3-7 it may be seen that Asia's best customers for manufactures among the developed countries are North America and the United Kingdom, that Africa exports most of its manufactured goods to western Europe, while Latin America's markets are divided more equally between North America, the European Economic Community (EEC) and the European Free Trade Association (EFTA). On the supply side, Asia provides the largest share—44 per cent of the total imports of manufactures of North America and western Europe from the developing countries, the rest being shared about equally between Africa and Latin America (table 3-8).

Table 3-7. Imports of Manufactures from Developing Countries into North America and Western Europe: Distribution by Destination, 1960

(Percentage)

	Imports into						
		EEC			*EFTA*		
Imports from	*North America*	*Total*	*France*	*Germany (Federal Republic)*	*Total*	*United Kingdom*	*Total*
Asia	49.0	17.8	4.5	8.7	33.2	29.1	100.0
Africa	5.8	58.4	15.7	8.2	35.8	30.1	100.0
Latin America	34.7	38.2	2.4	26.8	27.1	19.0	100.0
TOTAL, developing countries	32.4	35.2	7.3	13.3	32.4	26.9	100.0

Source: See table 3-6.

The EEC countries buy 53 per cent of the base metals shipped by the developing countries, while the United Kingdom alone takes 25 per cent and North America 17 per cent (table 3-9). In textiles, North

Table 3-8. Imports of Manufactures from Developing Countries into North America and Western Europe: Distribution by Origin, 1960

(Percentage)

	Imports into						
		EEC			*EFTA*		
Imports from	*North America*	*Total*	*France*	*Germany (Federal Republic)*	*Total*	*United Kingdom*	*Total*
Asia	66.6	22.3	27.1	28.8	45.2	47.8	44.0
Africa	5.2	49.2	64.1	18.3	32.8	33.6	29.7
Latin America	28.2	28.5	8.8	52.8	22.0	18.6	26.3
TOTAL, developing countries	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: See table 3-6.

Table 3-9. Imports of Selected Manufactures from Developing Countries into North America and Western Europe: Distribution by Destination, 1960

(Percentage)

		Imports into					
			EEC		*EFTA*		
SITC section and group	*Commodity and region*	*North America*	*Total*	*France*	*Total*	*United Kingdom*	*Total*
5	*Chemicals*						
	Asia	35.3	28.6	9.6	36.0	33.6	100.0
	Africa	9.8	73.7	67.5	16.4	8.7	100.0
	Latin America	57.5	17.9	4.0	24.7	10.5	100.0
	TOTAL, developing countries	46.2	28.6	15.1	25.1	13.9	100.0
6	*Manufactured goods classified by material*						
	Asia	48.1	20.8	6.1	31.1	27.4	100.0
	Africa	5.7	58.5	13.6	35.8	31.1	100.0
	Latin America	27.3	45.5	2.3	27.1	20.8	100.0
	TOTAL, developing countries	27.7	40.6	7.8	31.7	27.0	100.0
651-657, 841	*Textile yarn, fabrics, made-up articles, clothing, etc.*						
	Asia	50.4	12.3	0.3	37.3	32.2	100.0
	Africa	36.4	40.2	10.0	23.4	8.8	100.0
	Latin America	89.3	4.9	0.9	5.8	4.1	100.0
	TOTAL, developing countries	52.1	12.8	0.7	35.0	29.7	100.0
681-687, 689	*Base metals*						
	Asia	54.3	40.3	21.8	5.5	3.8	100.0
	Africa	3.7	59.1	11.3	37.2	32.7	100.0
	Latin America	20.8	49.4	2.9	29.8	22.9	100.0
	TOTAL, developing countries	16.8	53.1	9.8	30.1	25.2	100.0
7	*Machinery and transport equipment*						
	Asia	16.9	4.1	—	79.1	70.3	100.0
	Africa	—	39.8	3.4	60.2	44.3	100.0
	Latin America	25.5	15.5	—	59.0	37.0	100.0
	TOTAL, developing countries	13.0	18.4	1.2	68.6	54.7	100.0
711, 713, 715, 716, 732-735	*Machinery other than electric and transport equipment*						
	Asia	5.2	4.6	—	90.2	77.8	100.0
	Africa	—	40.9	1.7	59.1	42.0	100.0
	Latin America	26.0	16.0	—	58.0	33.5	100.0
	TOTAL, developing countries	8.0	21.0	0.6	71.1	54.1	100.0
8	*Miscellaneous manufactured articles*						
	Asia	51.1	11.3	0.7	37.7	35.8	100.0
	Africa	19.7	57.2	39.5	23.1	18.7	100.0
	Latin America	88.7	—	—	11.3	11.3	100.0
	TOTAL, developing countries	53.4	11.8	2.0	34.8	33.0	100.0
851	*Footwear*						
	Asia	39.3	9.2	1.6	51.5	50.9	100.0
	Africa	—	100.0	100.0	—	—	100.0
	Latin America	100.0	—	—	—	—	100.0
	TOTAL, developing countries	46.0	9.6	3.0	44.5	44.0	100.0

Source: See table 3-6.

America is the largest buyer, taking about 52 per cent of the total exports, followed by the United Kingdom, which takes about 30 per cent. North America is also the biggest importer of chemicals. In the new types of exports, such as machinery and equipment, the United Kingdom has provided by far the biggest market—absorbing over 54 per cent of the total exports of the developing countries to North America and western Europe. The EEC countries provide a moderate share of the trade, while the imports of North America are rather small.

In metals, the major supplier among the developing countries to western Europe is Africa, while North American supplies are obtained about equally from Asia and Latin America (table 3-10). In textiles, Asia is the biggest supplier, though France buys over half of her purchases in Africa. Latin America is the biggest supplier of chemicals, not only to North America but also to EFTA countries; the EEC market is shared about equally with Africa. In the new lines of exports, such as machinery, Latin American exports go mostly to North America, while Asia's exports go to the United Kingdom and African exports are taken mostly by France.

In general, it may be seen that the trade flows of the developing countries in manufactures and semi-manufactures generally follow their historical ties with the respective developed countries. Thus, the imports of the United Kingdom come mostly from the Commonwealth countries in Asia and Africa, and those of France and

Table 3-10. Imports of Selected Manufactures from Developing Countries into North America and Western Europe: Distribution by Origin, 1960

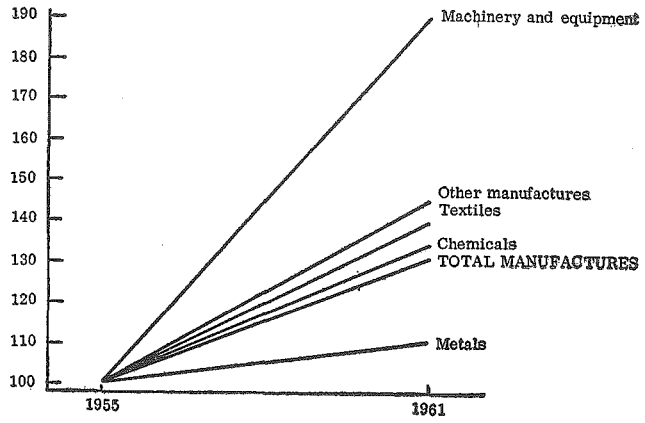
(Percentage)

SITC section and group	Commodity and region	Imports into					
			EEC		EFTA		
		North America	Total	France	Total	United Kingdom	Total
5	*Chemicals*						
	Asia	12.1	15.9	10.0	22.7	38.4	15.9
	Africa	3.4	41.6	72.1	10.6	10.1	16.1
	Latin America	84.5	42.5	17.8	66.7	51.4	68.0
	TOTAL, developing countries	100.0	100.0	100.0	100.0	100.0	100.0
6	*Manufactured goods classified by material*						
	Asia	67.3	19.9	30.6	37.9	39.4	38.7
	Africa	7.3	51.2	62.0	40.1	40.8	35.5
	Latin America	25.4	28.9	7.5	22.0	19.8	25.7
	TOTAL, developing countries	100.0	100.0	100.0	100.0	100.0	100.0
651-657, 841	*Textile yarn, fabrics, made-up articles, clothing, etc.*						
	Asia	87.8	86.8	43.0	96.7	98.2	90.8
	Africa	2.5	11.1	49.9	2.4	1.0	3.5
	Latin America	9.7	2.2	7.1	0.9	0.8	5.7
	TOTAL, developing countries	100.0	100.0	100.0	100.0	100.0	100.0
681-687, 689	*Base metals*						
	Asia	46.2	10.8	31.8	2.6	2.2	14.3
	Africa	11.3	57.2	59.4	63.5	66.6	51.4
	Latin America	42.5	31.9	8.7	34.0	31.2	34.3
	TOTAL, developing countries	100.0	100.0	100.0	100.0	100.0	100.0
7	*Machinery and transport equipment*						
	Asia	59.4	10.1	—	52.8	58.8	45.8
	Africa	—	72.4	100.0	29.4	27.2	33.5
	Latin America	40.6	17.5	—	17.8	14.0	20.7
	TOTAL, developing countries	100.0	100.0	100.0	100.0	100.0	100.0
711, 713, 715, 716, 732-735	*Machinery other than electric and transport equipment*						
	Asia	25.6	8.6	—	49.8	56.4	39.3
	Africa	—	74.0	100.0	31.6	29.5	38.0
	Latin America	74.4	17.4	—	18.6	14.1	22.8
	TOTAL, developing countries	100.0	100.0	100.0	100.0	100.0	100.0
8	*Miscellaneous manufactured articles*						
	Asia	83.6	83.5	31.5	94.8	94.9	87.4
	Africa	1.3	16.5	68.5	2.3	1.9	3.4
	Latin America	15.2	—	—	3.0	3.1	9.1
	TOTAL, developing countries	100.0	100.0	100.0	100.0	100.0	100.0
851	*Footwear*						
	Asia	73.9	82.9	45.8	100.0	100.0	86.4
	Africa	—	17.1	54.2	—	—	1.6
	Latin America	26.1	—	—	—	—	12.0
	TOTAL, developing countries	100.0	100.0	100.0	100.0	100.0	100.0

Source: See table 3-6.

Belgium from their former dependencies. The United States similarly imports a large share of the manufactures exported by the Latin American countries. The relationships between these countries in some instances no doubt helped exporters in the developing countries to establish the necessary business contacts in the markets of the respective developed countries, or encouraged companies in the latter to establish subsidiaries in the affiliated areas abroad. In some cases exporters of manufactures obtain preferential treatment in the markets of the developed countries: in the United Kingdom, most imports from Commonwealth countries are admitted duty free while other countries, whether developed or developing, have to pay duties of 10 to 20 per cent or more. The value of these relationships has, however, tended to diminish as the industrial structure in the developing countries has been expanded and diversified, as the markets in the metropolitan countries have become saturated, and as preferential advantages have been reduced.

Chart 3-1. Value of Exports of Manufactures from Developing Countries, 1955-1961



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

EXPORT TRENDS

As stated earlier, exports of manufactures by the developing countries have shown a higher rate of growth than exports of primary commodities. Chart 3-1 illustrates the movements of manufactured exports, by their major components. Export of metals, accounting for 36 per cent of the exports of manufactures of the developing countries, showed the least growth during the years 1955-1961.

The highest growth rate for exported manufactures was shown by machinery and equipment, followed by other manufactures, textiles and chemicals. The industrial growth of the developed countries has led to rapidly expanding demand for machinery and equipment, and some of the larger developing countries have taken advantage of this situation to develop machine-tool and other engineering industries.

On closer examination it will be found that the developing countries have acquired new markets 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, steel frames for furniture, and the like. These products embody a relatively high labour component, thereby giving the developing countries an advantage over the developed countries. In addition, less elaborate marketing is needed than in many types of consumer goods, especially durables.

Among both durable and non-durable consumer goods mention may be made of textiles, sewing machines and bicycles. The recent international arrangement with regard to the textile trade has slowed down textile exports considerably. In other goods, competition from some of the developed countries has tended to slow down the expanding trend.

Obstacles to expansion of exports

OBSTACLES ON THE SUPPLY SIDE

Except where historical ties have facilitated trade, exporters of manufactures in the developing countries usually face immense difficulties resulting from lack of knowledge of foreign markets, lack of contacts with foreign businessmen, and lack of familiarity with the quick-changing tastes of foreign consumers. Inability to secure finance places the exporters of developing countries at a serious disadvantage in competition with exporters in the developed countries. Banking institutions in European countries and in North America provide medium and long-term credit and credit insurance to exporters, extending over periods from three to five years or more, and covering 70 to 85 per cent of the value of exports. In addition, governments often provide guarantees to exporters against certain types of losses.[7] The quality of the products, the attractiveness of their design and packaging, and the servicing facilities available may have shortcomings that severely limit sales in countries accustomed to high standards in these respects. The need to pay high royalties on designs patented in the developed countries may contribute to high production costs.

One of the most serious obstacles to the competitive power of manufacturing industries in the developing countries is the small scale of production imposed on them by the smallness of their domestic markets. Even in large countries the effective market may be small because of the low income of the mass of the population. Thus, advantages over the developed countries resulting from the low wages paid may be much more than offset by the low productivity of labour, so that labour cost per unit of output may be higher than in the developed countries.

The nature of the problem facing the developing countries may be illustrated by reference to the two major types of manufactures exported by the developing countries—textiles and metals. Metal industries were set up mainly by foreign enterprises in their search for raw materials for supplying markets in the developed countries. The absence of external economies,

[7] *See* Inter-American Development Bank, "Financing of Exports in Latin America", (document DED/62/70 Rev., 17 July 1962), pages 31 to 49.

skilled labour and sources of power, and a market for the by-products in the under-developed countries, as well as the advantages of being located near the consumer, often led to these industries being established in the industrialized countries. Only when the cost of transportation was found to be high, or when technical reasons prevented the ores or concentrates from being transported, were the processing industries established in the raw materials producing country.[8] It has to be borne in mind that many of the metal processing industries are highly capital-intensive and cheap labour does not provide the developing countries with much of an advantage over the industrialized countries.

The circumstances which originally led to the establishment of processing industries in the industrialized countries have no doubt changed to some extent during recent years. Some of the developing countries have set up a fairly efficient infrastructure and have made progress in solving the problem of inland transportation. Technical progress in packing and hauling industries, the development of power resources and port facilities, and the lowering of shipping costs have made it worthwhile for some of the developing countries to undertake refining and fabrication of metals.

It should be noted that the share of value added in gross output by rudimentary processing is rather small in many cases as compared to the value added in semi-manufactures (sheets, wires, tubes, etc.).[9] The very large investment necessary to establish the first stages of refining, and the heavy import of capital equipment and materials required, often discourages the establishment of these industries, particularly when the net earnings of foreign exchange are not too high. These considerations, along with the high tariff rates applied to the refined products, account for the fact, already noted, that exports of ores and crude materials have frequently risen faster than those of the processed commodities.[10]

In contrast to the raw material processing industries catering mainly to export markets, the textile industry typifies the industries that are oriented to the domestic market. They have grown up largely through a process of import-substitution in the developing countries, often under highly protected conditions. Growth in a sheltered environment often renders them unable to survive and flourish in highly competitive foreign markets. The organization of the industry, its financing, marketing and distribution and the design of its products are usually oriented towards serving domestic consumers. Even the older industries with a sizable export market, such as the Indian textile industry, may lose their initiative and vigour and suffer a setback in foreign markets under the joint influence of severe pressure of foreign competition and growing domestic demand.

Governments may add to the natural tendency of entrepreneurs to avoid venturing out into foreign markets by various types of restriction and tax discrimination. For example, profits originating abroad may be subjected to double taxation, export quotas may be fixed to ensure sufficient supplies for domestic consumers, modernization of equipment may be made difficult in export industries by employment and tax policy, difficulties may be created in obtaining imported raw materials and machinery through exchange control regulations and inefficient allocation of import quotas, contacting foreign customers may be made difficult by strict travel regulations, and so on.

[8] United Nations, *Non-ferrous Metals in Under-developed Countries* (Sales No.: 55.II.B.3), chapter 4.

[9] United Nations, *Economic Survey of Europe in 1960*, chapter V, page 24.

[10] *See* table 3-4.

OBSTACLES ON THE DEMAND SIDE

The major obstacles that the exports of developing countries have to face in the markets of the developed countries are tariffs (including the over-valuation of imports for tariff purposes), quota restrictions, internal duties, subsidies and the like, as well as the difficulties that arise on the demand side from the lack of commercial contacts.

Tariffs

Tariffs present one of the most serious obstacles to the efforts of the developing countries to enter the markets of the developed countries for manufactures and semi-manufactures. Unweighted tariff rates on the major groups of imports of manufactures into North America and western Europe from the developing countries are shown in appendix table 3-II. The tariff averages give only a rough indication of the tariff levels applied in each of the importing countries. The share of the developing countries in the total imports of the respective commodity groups provides some indication of the importance that is to be attached to the tariff rates, although it has to be borne in mind that the indication may be misleading where tariffs are so high as to exclude virtually all imports.

In table 3-11, the median tariff rates of the larger groupings of commodities are shown in order to permit a more general view of the tariff situation than is possible from appendix table 3-II. To the extent that the details are submerged in the median values in this table only conclusions of a general character can be drawn. It will be seen that the median tariff rates of the United States and Austria, and the non-preferential rates of the United Kingdom are the highest among the developed countries, ranging between 14 and 32 per cent, while the Scandinavian countries and Switzerland have the lowest rates ranging between one and 11 per cent in the manufactures in which the developing countries are interested.

The highest tariff rates are those applied to consumer goods (cotton textiles and footwear) which compete with domestic production in the developed countries. The duty on machinery and chemicals is relatively lower, a factor which may have contributed to the rapid expansion in imports from the developing countries in recent years.

The preferential tariff rate in the United Kingdom is zero in most of the commodities in which the developing countries are interested. This may have contributed to a rapid growth in imports of manufactures from the Commonwealth: of the total imports of manufactures from the developing countries into the United Kingdom, nearly 75 per cent come from Commonwealth countries. Although preferential margins enjoyed by the French Community countries in France are higher than those obtained by Commonwealth countries in the United Kingdom, the former countries do not appear to have been able to make effective use of this advantage. In some cases this may have been due to inhibitions on the establishment of local industries resulting from duty free imports of manufactures from France. In

Table 3-11. Tariff Ranges and Median Tariff Rates in North America and Western Europe,[a] by Commodity Group, 1960

Commodity group	Highest tariff: Country	Highest tariff: Median rate (percentage)	Lowest tariff: Country	Lowest tariff: Median rate (percentage)	Median[b] (percentage)
Chemicals	United States	23	Denmark	2	11
Manufactures of leather, wood, cork, veneer, plywood board, etc.	United States	17	Denmark, Sweden	5	14
Textile yarn and fabrics	United Kingdom (non-preferential)	23	Denmark	6	18
Cotton textiles	United States	20	Denmark	6	12
Jute fabric	Austria	28	Denmark	2	12
Iron and steel	United Kingdom (non-preferential)	14	Denmark	1	10
Machinery, other than electric	Austria	18	Denmark, Switzerland	6	10
Clothing	United States	32	Switzerland	11	19
Footwear	Austria	28	Switzerland	11	19
Other manufactures	United States	24	Denmark	7	15

Source: See appendix table 3-II.

[a] EEC and EFTA, excluding Portugal.

[b] Median tariff rates for commodity groups were calculated by first computing simple arithmetical averages of tariff rates for items selected from each group on the basis of imports from developing countries; medians of these arithmetic averages were then taken for Canada, the United States, EEC and each of the EFTA countries, excluding Portugal; and the median for the commodity groups was derived from the medians for the countries mentioned above.

other instances it may simply have been a result of the very low general level of development. Imports of manufactures from the French Community account for 28 per cent of total French imports of manufactures from all developing countries.

The most striking disincentive to exports of manufactures from developing to developed countries is to be found in the tariff structure of the latter countries. As will be seen from appendix table 3-III, all the industrial countries maintain a clear progression in their tariff rates according to the degree of processing. In any given commodity group, the tariff rates increase continuously with the degree of fabrication so that the raw materials bear the lowest duties and the finished products into which they enter the highest. It should be observed, moreover, that the degree of progression of duties shown in this table would be much greater if the duties were related not to the total value of the respective imports but to the value added in the manufacturing processes concerned.

A discussion of general tariff levels does not permit an accurate assessment of the effect of tariffs on the expansion of trade, since average tariff rates for broad commodity groups may have little relation to the effective rates on particular items of major importance to the developing countries. This difficulty can be partially overcome[11] by identifying the particular commodities that are imported from the developing countries and finding out the exact tariff barrier that they have to cross. This kind of information for individual commodities has been compiled by GATT on the basis of material supplied by Governments. A summary of the rates[12] for such manufactures and semi-manufactures is presented in table 3-12. These specific rates provide a more concrete illustration of the barriers faced by the developing countries. Furthermore, it may be noted that many of the specific rates which are of interest to the developing countries are higher than the averages for the commodity groups to which they belong.

[11] The solution is only a partial one because it does not provide for those cases in which there are no imports because tariffs are prohibitively high.

[12] The tariff rates shown in table 3-11 and appendix table 3-II were computed by Political and Economic Planning for 1960 prior to the Dillon-round reduction. The tariff rates shown in table 3-12 are from GATT compilations and are also generally for the year 1960.

Table 3-12. Tariff Rates on Selected Commodities in North America and Western Europe, 1960

(*Percentage*)

Commodity	United States[a]	Canada[a]	EEC[b]	Austria[c]	Scandinavian countries[a]	United Kingdom[a d]
Bicycles	11.4-27.0	25.0	20.0-21.0	18.0-34.0	0-33.6	20.0
Cycles and parts						
Coir manufactures[e]	8.5-20.0	25.0-30.0	14.0-24.0	25.0-30.0	3.0-25.0[c]	10.0-20.0
Fabrics, carpets, carpeting and rugs, mats, twine, cordage, nets, etc.						
Copper rollings	5.5-18.1	7.5-15.0	10.0-13.0	10.0-15.0	0-5.0[c]	10.0-20.0
Wrought bars, sections, plates, etc. Foil, tubes, pipes, etc.						
Diesel engines up to and including 50 h.p.	8.8-15.0	20.0	12.0-22.0	0-25.0	0-20.0	17.5-30.0
Internal combustion engines (excluding aircraft engines)						
Electric fans	17.5	22.5	19.0	24.0	10.0-20.0	17.5
Domestic appliances						

Table 3-12 (*continued*)

Commodity	*United States*[a]	*Canada*[a]	*EEC*[b]	*Austria*[c]	*Scandinavian countries*[a]	*United Kingdom*[a d]
Electric motors up to and including 50 h.p.	1.2-10.5	22.5	12.0-14.0	18.0-25.0	10.0-12.0	10.0-17.5
Jute manufactures	1.8-22.4	5.0-25.0	10.0-23.0	18.0-32.0[a]	0-25.0	10.0-20.0
Yarns and thread, hessian cloth, sacking cloth, carpets, carpeting, rugs, tapestries, etc.						
Leather goods	12.5-40.0	10.0-27.5	7.0-21.0	18.0-24.0	0-30.0	10.0-30.0
Articles of leather, handbags, gloves, luggage, leather garments, harness and saddles, etc.						
Sewing machines	7.5-10.0	0-15.0	12.0-14.0	25.0-28.0	0-10.0	15.0-20.0
Machines and parts						
Steel furniture	6.4-34.0[f]	10.0-25.0	17.0-20.0	...	5.0-20.0[e]	15.0-20.0
Furniture for household, office, medical, dental, surgical or veterinary use						

Source: General Agreement on Tariffs and Trade, Committee III, "Customs Tariffs on Certain Products Considered by the Committee", documents COM.III/73, 2 May 1962 and COM.III/73/Add.1, 4 May 1962.

[a] Most favoured nation rates.

[b] Common external tariff.

[c] General; most favoured nation rates not available.

[d] Non-preferential rates; preferential rates are zero in most cases.

[e] Excluding coir yarns and fibres on which the rates are zero in most countries.

[f] Including utensils, hollow or flat-ware, stoves and ranges, etc.

Quota restrictions

Tariff walls, if not too high, are often scaled by improving the efficiency of the industries concerned and lowering costs of production. Quota restrictions, however, cannot be overcome by increasing efficiency in production.

With the easing of balance of payments positions, most countries of North America and western Europe have withdrawn quota restrictions on imports of manufactured goods. In France and the Federal Republic of Germany among the EEC countries and in Austria and Denmark among the EFTA countries, quota restrictions are, however, still maintained on a number of manufactured goods in which the developing countries are interested (*see* table 3-13). These are mostly consumer goods; many of them are durables in which the developing countries have installed production capacity only very recently.

On many of these items restrictions are operated in such a way as to discriminate in favour of trade within a regional grouping and against trade outside the group. In general, however, the recent trend has been towards withdrawal of restrictions; the main exception has been in cotton textiles where this trend has been reversed.

Quota restrictions on textiles

The textile industry is one of the initiators of industrial transformation. Its pioneering growth has been crucial not only in the case of Europe, North America and Japan but also in many of the developing countries

Table 3-13. Quota Restrictions in North America and Western Europe[a] on Imports of Manufactures and Semi-manufactures from Developing Countries

Commodity	*Country*[b]	*Quota restriction*
Bicycles	Austria	Restricted
	Denmark	Restricted
Cement	France	Restricted, except from OECD countries
Coir manufactures	Austria	Most items restricted
	France	Restricted, except from OECD countries
	Germany (Federal Republic)	Certain types restricted
Electric motors	Austria	Certain types restricted
	Denmark	Restricted
	France	Restricted, except from OECD countries
Ferrochrome and ferromanganese.....	France	Restricted, except from OECD countries
Finished leather	Germany (Federal Republic)	Neat leather restricted, except from OECD countries
Internal combustion engines.....	Austria	Certain types of diesel engines restricted
	Denmark	Engines for cycles with auxiliary engines restricted
Jute manufactures	Denmark	Hessian sacks, other sacks and bags restricted, except reinforced jute sacks
	France	Various items restricted
	Germany (Federal Republic)	Jute sacks, bags, unused, restricted from several countries

Table 3-13 (*continued*)

Commodity	*Country*[b]	*Quota restriction*
Jute manufactures (*continued*)	United Kingdom	Various restrictions
Lead	United States	Unmanufactured lead subject to restriction
Leather footwear	Austria	All types restricted
Sewing machines	Austria	Furniture designed for sewing machines restricted
	France	Restricted, except from OECD countries
	Germany (Federal Republic)	Non-industrial sewing machines and parts restricted, except from OECD countries
Sports goods	Denmark	Certain types restricted
	France	Certain types restricted, except from OECD countries

Source: General Agreement on Tariffs and Trade, Committee III, "Quantitative Restrictions Affecting Exports of Less Developed Countries", in documents COM.III/72, 12 April 1962, COM.III/89, 18 September 1962 and COM.III/89/Rev.1, 16 November 1962.

[a] Austria, Belgium-Luxembourg, Denmark, Federal Republic of Germany, France, Italy, Netherlands, Norway, Sweden, Switzerland and United Kingdom.

[b] Countries in North America and western Europe not specified do not in general maintain any quota restrictions on imports of the commodities listed.

in recent years. The existence of a sizable domestic market permits it to grow by the simple process of import substitution once the political and social situation in a country permits such substitution and the infrastructure is sufficiently developed to provide the requisite transportation and power. Once having expanded to a size where economies of scale begin to show beneficial effects on costs, the progress of the industry is rapid and is advanced through the combination of cheap labour and modern machinery.

In the cheaper types of textiles in which labour content is relatively high and products are fairly standardized, the developing countries have an obvious advantage over the developed countries. On the other hand, in high-quality and fashion products, which require heavy expenditure on research, development, design and promotion, involving considerable risk-taking, the developed countries may continue to retain their advantage over the developing countries.

It is, therefore, in the export of the cheaper and standard-quality textiles that the developing countries made rapid progress in recent years. Between 1956 and 1961, total exports of all types of textiles from developing countries to North America and western Europe increased from $220 million to $410 million. Most of these exports came from India, Pakistan and Hong Kong; the share of Latin America and Africa was slightly less than one-fourth of this total (*see* table 3-14). The share of developing countries in total im-

Table 3-14. Exports of Textile Yarn and Fabrics[a] from Developing Countries and Japan to North America and Western Europe, 1956-1961

(*Millions of dollars*)

	Importing countries					
			Western Europe			
					EFTA	
Exporting countries	*World, total*[b]	*North America*	*Total*	*EEC*	*Total*	*United Kingdom*
Developing countries						
1956	703	115	105	23	79	70
1959	799	160	160	46	115	92
1960	886	180	200	55	135	111
1961	912	200	210	67	140	109
Asia[c]						
1956	612	94	89	14	72	70
1959	646	125	120	21	97	92
1960	721	145	135	24	110	110
1961	756	170	145	35	110	107
Other areas						
1956	91	21	16	9	7	—
1959	153	35	40	25	18	—
1960	161	35	65	21	25	1
1961	156	30	65	32	30	2
Japan						
1956	719	96	40	20	17	7
1959	755	160	50	18	27	7
1960	918	170	69	27	36	11
1961	879	145	76	33	36	10

Source: United Nations, *Monthly Bulletin of Statistics*, April 1962 and April 1963.

[a] SITC division 65.

[b] Including centrally planned economies.

[c] Excluding Japan and Turkey.

ports of all forms of textiles in 1960 amounted to under 4 per cent in the EEC countries, 14 per cent in the EFTA countries and 22 per cent in North America (*see* table 3-15).

The United Kingdom situation represented a remarkable change from its heyday as the world's largest exporter of textiles. The declining trend in cotton textiles began in 1912: between 1912 and 1958, production of woven cloth fell from 8,050 million yards to 2,030 million yards.[13] This decline was due largely to the growth of cotton textile industries in some of the former colonies, particularly India. Other markets were lost to Japanese competition.

During the post-war years, the developing countries, particularly India, Pakistan and Hong Kong, not only

[13] The Rt. Hon. The Viscount Rochdale, "A Challenging New Chapter for Cotton" in United Kingdom Board of Trade, *Board of Trade Journal* (London), 27 May 1960, page v.

Table 3-15. Share of Imports from Developing Countries and Japan in Total Imports of Textile Yarn and Fabrics,[a] 1960

(*Percentage*)

Imports of	*Japan*	*Developing countries*		
		Total	*Asia[b]*	*Other areas*
European Economic Community	2.4	3.9	2.1	1.8
European Free Trade Area	3.8	14.2	11.6	2.6
North America	20.6	21.8	17.6	4.2

Source: United Nations, *Monthly Bulletin of Statistics*, April 1963.

[a] SITC division 65.

[b] Excluding Japan and Turkey.

stopped importing British cotton textiles but started to export to the United Kingdom in increasing quantities. While tariff barriers and quota restrictions prevented their entry into European markets in large quantities, historical ties with the United Kingdom facilitated their export to the British market. The British textile industry, already in difficulties owing to the loss of external markets, found itself threatened at home as well. In order to slow down the growth of imports, bilateral agreements were made with Hong Kong in 1958 and with India and Pakistan in 1959. Under these agreements cotton textile exports to the United Kingdom became subject to voluntary quota restrictions.[14]

Voluntary quota restrictions on textile exports to the United States had been applied by Japan as early as 1956. A sudden upsurge in United States imports from developing countries in 1959-1960 prompted the United States Government to call for an international cotton textile conference under the auspices of GATT to prevent market disruption[15] and adopt measures for orderly expansion in the textile trade.

This conference met in July 1961 and adopted a short-period plan which was to be in operation for one year ending 30 September 1962.[16] Under this short-period plan a country could declare itself to be threatened with market disruption and request the exporting countries to restrict their textile exports to the level of the twelve-month period ending on 30 June 1961. Subsequently, a long-term plan was adopted by the conference under which a country could, after consultation with the exporting countries, ask the latter to impose quota restrictions on their exports on grounds of "market disruption".

Under the long-term agreement, adopted for the period 1962-1967, it was provided that every country should gradually remove quota restrictions on imports of cotton textiles at a percentage rate which was to be declared at a subsequent date. At a meeting, held in September 1962, of the Cotton Textile Committee of GATT, which had been appointed to supervise the operation of the international agreement, percentage rates of increase in import quotas were announced by a number of countries. These were:

Austria	19 per cent per year
Denmark	15 per cent per year
Sweden	15 per cent per year
Norway	15 per cent per year
EEC countries	88 per cent in 5 years

The United Kingdom and Canada expressed their inability to increase their quotas on the grounds that they were already importing a large quantity of cotton textiles from the developing countries. The United States Government, invoking the market disruption clause, signed bilateral agreements with a large number of exporting countries during 1962-1963 fixing export quotas into the United States market at the 1961-1962 level. Among the countries concerned were China (Taiwan), Colombia, Hong Kong, India, Israel, Pakistan and the Philippines. Among the developed countries, Japan was most affected by the agreement: thirty-six items of its textile exports were now to be limited to the 1961-1962 level.

It should be observed that if the export quotas to Canada, the United Kingdom and the United States remain unchanged at the 1961 level, while quotas to the other European countries are increased as promised, the export of cotton textiles from the developing countries will rise at an annual rate of only about 3 per cent during the period of the long-term agreement—which is a rate of growth much below that attained in recent years.

[14] *Ibid.*

[15] The term "market disruption" was used by United States Under-Secretary of State Douglas Dillon 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, and (*d*) the difference in price not to be due to governmental intervention in fixing of prices or to dumping practices. General Agreement on Tariffs and Trade, *The Activities of GATT* (Geneva, 21 April 1961), pages 25 and 26.

[16] General Agreement on Tariffs and Trade, "Arrangement Regarding International Trade in Cotton Textiles" (GATT/597, Geneva, 18 July 1961).

Measures for removal of obstacles to exports

MEASURES AFFECTING THE SUPPLY SIDE

General

Many of the difficulties encountered by the developing countries in producing manufactures of a type and quality that could be exported to developed countries at competitive prices are indistinguishable from the problems they face in promoting industrial development in general. Such problems include the elaboration of a broad programme of industrial growth, the mobilization of public and private resources for the fulfilment of that programme, the building of an adequate infrastructure and the provision of suitable education and technical training.

No attention is given to general questions of industrial development in the present chapter, which is confined to questions that are specific to the export of manufactures.

Export promotion measures

Most of the developing countries interested in the export of manufactures to the developed countries are paying increasing attention to the question of export promotion.[17] Thus, in India, export promotion councils have been established in all important export industries whose function is to advise the Government on ways and means of expanding exports. Governments are encouraging exports by granting concession rates and priorities on transportation of materials and finished goods from factories to ports, by providing export bonuses, and by permitting the sale of part of the foreign exchange earned by exporters in public auction. Increasing attention is being given to quality by establishing quality control programmes in export industries and organizing inspection of exports.

One of the main handicaps in exporting producer goods or finished consumer goods is the absence of locally developed designs. Design engineers are few in the developing countries and the research facilities available are also scanty. There is a need for the development of design institutes and research centres, possibly with international aid. Steps are also required to enable exporters of manufactures in developing countries to offer credit terms comparable with those available from their competitors in the developed countries.[18]

National and international trade centres

The delegation of Brazil to GATT has suggested the creation of an international trade centre to supply information on market potentialities in the developed countries for goods produced in the developing countries.[19] Rapid changes in the design both of producer goods and consumer goods and shifts in market opportunities due to technical progress and changes in fashions make it imperative to provide active and alert information services if the developing countries are to keep abreast of the latest developments in the markets of the developed countries. Very few of the developing countries have either the means or the technical skill and experience to organize and run such an information service efficiently. At the same time, there is a need to inform manufacturers in the developed countries of the advantages, opportunities and facilities available to them for establishing branches or subsidiaries in developing countries, or for sub-contracting certain parts of their operations.

It has, however, also been suggested that individual developed countries may wish to organize such services for the benefit of the developing countries on lines similar to the investment centres that have been established in certain developed countries to inform private investors of the opportunities for investment in developing countries.

A special Report of Committee III of GATT has pointed out the need for consumer servicing for manufactures exported by the developing countries.[20] In view of the small quantities of manufactured goods other than textiles now imported by the developed countries, it may in many cases be uneconomic to operate a servicing organization.[21] Moreover, firms in developing countries may lack the financial resources that the creation of world-wide servicing facilities requires. Yet, without an efficient organization of this sort export trade in durable consumer goods and producer goods cannot be expanded. This vicious circle could perhaps be broken if, in the early stages, national or international trade centres could help in the organization of such servicing.

Advertisement, representation in trade fairs and other promotional activities could also be undertaken by national or international trade centres on behalf of the developing countries.

Concessions for enterprises opening subsidiary or new organizations in the developing countries

The Rogstad Committee of Norway[22] has recommended various tax concessions and credit guarantees to Norwegian industrial enterprises to encourage them to open branches in developing countries. It is suggested that not only will the output of manufactures expand if industrial firms in the developed countries open branches in the developing countries, but the export of their products is likely to be received in the developed countries with much less opposition than would otherwise be encountered. In the United States, where 27 per cent of the total imports are products of American enterprises located abroad,[23] special tax concessions in respect of new investment in developing countries were announced in April 1963.

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[17] United Nations, *Economic Survey of Asia and the Far East, 1962,* "Part One. Asia's Trade with Western Europe with Special Reference to the Common Market" (Sales No.: 63.II.F.1). *See also* General Agreement on Tariffs and Trade, Committee III, "Regional and Special Agencies Work on Trade Promotion" (document COM.III/91, 26 September 1962), and "Assistance in Trade Promotion" (document COM.III/92, 10 October 1962).

[18] A special paper on this subject is planned for the United Nations Conference on Trade and Development.

[19] General Agreement on Tariffs and Trade, Committee III, "International Trade Information Centre—A Brazilian Proposal" (document COM.III/93, 26 October 1962).

[20] 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 19.

[21] United Nations, *Economic Survey of Asia and the Far East, 1962.*

[22] Committee appointed by the Government of Norway, "Kommersiell Bistand til Utviklingslandene: Innstilling fra Utvalget til utredning av tiltak til fremme av kommersiell bistand til utviklingslandene" (Oslo, 26 October 1961).

[23] United States Senate, Final Report of the Committee on Commerce, *The United States and World Trade: Challenges and Opportunities,* 87th Congress, 1st Session, Senate Report, 446 (Washington, D.C., 1961), page 28.

Many of the developing countries themselves offer a variety of inducements to foreign enterprise to establish new facilities in them. Such inducements include particularly favourable income tax treatment and credit facilities, exemptions from customs duties or exchange surcharges in respect of imported raw materials and equipment, exemptions from export duties, guarantees of minimum dividends, guarantees regarding the repatriation of profits and capital, and especially attractive exchange rate arrangements, including revaluation of assets in the event of currency devaluation. In some cases, in fact, developing countries appear to have competed with one another in offering such inducements, with the result that they have given up a larger share of the benefits of the new investment than would otherwise have been necessary. The recent decision of the Central American countries to harmonize their tax incentive legislation as part of their integration programme points up the need for a more broadly based understanding between the developing countries regarding the inducements to be offered to foreign enterprise.

In a number of countries, both developed and developing, concern has been expressed at the possibility that a substantial proportion of domestic employment might come to depend upon decisions made by enterprises located abroad. It is pointed out that the business decisions made by such enterprises are likely to be based on the view taken of their operations as a whole and would therefore not necessarily conform in all cases to the course of action that a particular country might regard as appropriate to its own circumstances, considered separately. Another source of serious concern is that special incentives to foreign capital place domestic firms at a serious disadvantage and thereby inhibit domestic enterprise.[24]

Various means are available for dealing with such problems, including special provisions regarding the proportion of share capital to be locally owned, options for takeover by domestic enterprise after given periods, and so forth. Here again, international consultation could increase the understanding of mutual problems and possibly lead to the formulation of generally accepted standards in this field.

MEASURES AFFECTING THE DEMAND SIDE

Phased reduction of tariffs on processed and semi-processed imports

The delegation of the Federation of Rhodesia and Nyasaland proposed at the GATT Council meeting of 27 February 1962 that the tariff differentials between non-ferrous base metallic ores, metals and semi-manufactures in the developed countries be abolished in the course of the next twelve years because the higher tariffs on processed metals and semi-manufactures prevent development of refining, smelting and rolling industries in the countries which supply the ores. It was suggested that a period of twelve years should be sufficient for the protected industries to become adjusted to free market conditions.[25]

At a meeting in October-November of 1962 of Committee III of GATT, eighteen developing countries submitted a joint proposal in which, among other things, they suggested that the industrialized countries should prepare urgently a schedule for the reduction and elimination of tariff barriers to exports of semi-processed and processed products from less developed countries. Reductions of at least 50 per cent of the present duties over the next three years were proposed and it was also suggested that progress reports on these reductions should be submitted to the Contracting Parties at regular intervals.

One-way free trade

One of the difficulties that have prevented the developing countries from deriving much benefit from the series of tariff reductions that has taken place under the auspices of GATT is their inability to offer reciprocal tariff reductions to the developed countries. Tariffs are needed in the developing countries both as a source of revenue and as a means of encouraging industrial development.

There is therefore a strong case for non-reciprocal trade concessions by the developed to the developing countries as indicated in resolution 1707 (XVI) of the General Assembly. Similarly, the Ministerial Declaration of GATT of 30 November 1961[26] pointed out the need to adopt a sympathetic attitude on the question of reciprocity in negotiating reductions of tariff barriers to the exports of less developed countries.

A study prepared for the Joint Economic Committee of the Congress of the United States[27] has recommended that in dealing with imports from developing countries, two of the accepted principles of commercial policy in the United States should be modified. In the first place, the principle of avoiding tariff reductions which threaten injury to domestic production should not be applied; and, secondly, the principle of reciprocity should not be insisted upon in granting tariff concessions in respect of such imports.

A staff report submitted to the United States Senate Committee on Commerce has also recommended that the President should be empowered to suspend the principle of reciprocity temporarily in negotiating tariff reductions with less developed countries in view of their difficult balance of payments situation.[28]

It has been suggested further that "one-way free trade" should be established with the developing countries: in other words, all tariff and other barriers to the exports of developing countries would be entirely removed while these countries would themselves be permitted to maintain their own tariffs for the promotion of domestic development.[29]

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[24] United Nations, *Foreign Private Investment in the Latin American Free-trade Area* (Sales No.: 60.II.G.5), page 6.

[25] General Agreement on Tariffs and Trade, documents L/1742, 27 February 1962, COM.III/W.15, 16 October 1961, COM.III/7/Rev.1, 9 February 1960, and COM.III/W.15, 19 February 1962.

[26] 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.

[27] United States Congress, Joint Economic Committee, Subcommittee on Foreign Economic Policy, *Economic Policies Toward Less Developed Countries*, 87th Congress, 1st Session, joint committee print (Washington, D.C., 1961), page 9.

[28] *The United States and World Trade: Challenges and Opportunities*, cited above, pages XXIV and 56.

[29] 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 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 (Menasha, Wisconsin, May 1960), page 266.

Some concern has been voiced in the developed countries regarding the effect that unilateral concessions might have on balance of payments positions. In relation to this it should first be noted that in so far as unilateral concessions are made by all developed countries acting together, the consequential increase in imports from the developing countries would be matched by a corresponding increase in exports. This results simply from the fact that the developing countries, being short of foreign exchange, spend all that they earn. The unilateral retention of tariffs by developing countries would probably not affect this situation basically: on the whole it would mean control over the commodity composition of goods imported rather than over their total value.

Naturally, the fact that the total exports of developed countries would rise in line with their total imports, as a result of unilateral concessions to the developing countries, does not mean that every individual developed country would participate in the additional exports to the exact amount of its additional imports. In some countries exports would rise less than imports, in others, more. But this is primarily a matter of the competitiveness of the exports concerned; and each country has to seek to maintain a competitive position in any case —and irrespective of whether it liberalizes imports from the developing countries—since otherwise its balance of payments would be bound to come under pressure.

Preferential reduction of tariffs

It has been argued that reduction of tariffs or even free trade, if granted to all countries both developed and developing, may not in effect put them on an equal footing, for their competitive powers will still be unequal.[30] In this case, the developing countries might not derive much benefit from such tariff reduction.

The study prepared for the Joint Economic Committee of the Congress of the United States, mentioned above,[31] has suggested that under special circumstances the less developed countries may be granted greater tariff concessions than the industrially developed countries in respect of the same product. Such action, however, should, according to the study, be taken on a multilateral basis—that is, in co-operation with other developed countries. It was also suggested that the escape clause and peril point provisions of the Reciprocal Trade Agreements Act should not be applied in case of imports from developing countries. Instead, remedies should be sought in liberal trade adjustment programmes.

In view of the very small proportion of the total imports of manufactures supplied from the developing countries, it has been suggested that the developed countries might agree to abolish all tariffs and other restrictions on such imports of manufactures from individual developing countries as do not, in any year, exceed, say, 3 or 5 per cent of total imports in the previous year in the particular commodity group concerned. So long as imports from any individual country remained below this limit, they would be admitted freely. Tariff and quota restrictions would come into effect only when this limit was exceeded. This limited preferential treatment would, it is held, not create market disruption. Moreover, it might stimulate foreign investment in the developing countries.[32]

Removal of discrimination

The quota restrictions of many of the western European countries discriminate against imports of manufactures from the developing countries.[33] The Ministerial Declaration of GATT has urged their removal and the extension of liberalization benefits in the fullest measure to the trade of developing countries having regard to the urgent need for helping these countries attain rapid, self-sustaining growth.[34]

Long-term trade agreements for importing manufactured goods from developing countries

During the war years both the United Kingdom and the United States had long-term agreements with many raw material supplying countries which guaranteed a minimum volume of exports. Similar agreements were maintained by the United Kingdom for some time after the war. So far, with the exception of trade with the centrally planned economies, few such long-period contracts have been made between the developed and the developing countries for the supply of manufactured goods.

Regional trade groupings

Formation of regional trade groupings has been suggested as a means of enlarging the markets for the industrial goods produced by the developing countries. The Treaty of Montevideo establishing the Latin American Free-trade Association provides for special agreements to be reached between member countries governing specialization and exchange in the various branches of industry, within a general context of import substitution for the region as a whole.[35] The Central American integration programme likewise makes special provision for the encouragement of industrial growth on the basis of the market available in the entire Central American area. Interest in the formation of regional trade groupings with similar objectives as regards the exchange of industrial products has also been expressed at meetings of the Economic Commission for Africa and the Economic Commission for Asia and the Far East.[36]

While trade groupings of developing countries would encourage their exports of manufactures to one another, they would not directly or immediately affect the demand for manufactures emanating from the developed countries. In the longer run, however, the lowering of costs and diversification of production made possible through access to larger regional markets would also be likely to lead to an expansion of market opportunities in the developed countries.

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[30] United Nations, *The Latin American Common Market* (Sales No.: 59.II.G.4), pages 18 to 20.

[31] *Economic Policies Toward Less Developed Countries*, page 9.

[32] United Nations, *Economic Survey of Europe in 1960*, chapter V, page 50. The Senate Committee on Commerce argues, however, that a special trade policy for the developing countries would be unwieldy. See *The United States and World Trade: Challenges and Opportunities*, cited above, page 133.

[33] *See* table 3-15 on quota restrictions and the discussion of the textile trade.

[34] General Agreement on Tariffs and Trade, *Trade of Less Developed Countries*, Special Report of Committee III (Geneva, 1962), page 22.

[35] United Nations, *Multilateral Economic Co-operation in Latin America* (Sales No.: 62.II.G.3), pages 57 to 70. *See* also *The Latin American Common Market*, cited above, pages 8 and 9.

[36] *See* resolution 28 (III) of the Economic Commission for Africa and resolution 31 (XVI) of the Economic Commission for Asia and the Far East.

Measures for structural adjustment in the developed countries

Any scheme for trade liberalization calls for a programme of adjustment to reduce the impact of increased imports on employment and to facilitate the reabsorption of displaced workers in alternative productive employment. Help may also be needed for the affected industries to reorganize and modernize. The success of such measures may itself help to make possible a more rapid phasing of a tariff reduction programme.

It is important to realize that a lowering of trade barriers in the developed countries is not likely to lead to a sudden flooding of markets with imports of manufactures from the developing countries. The latter countries do not have the resources or capacity to bring about such a situation, as is evident from the difficulties experienced in promoting the development of their industries. Except in certain special cases, the growth of imports is likely to be a gradual process in the developed countries, leaving adequate time for measures of adjustment to be planned and to take effect.

The success of any adjustment programme depends to a large extent on a country's ability to maintain full employment and sustained economic growth. While full employment and economic growth facilitate trade liberalization and structural adjustment, trade liberalization may also contribute to the maintenance of full employment and economic growth by encouraging competition, technical progress and the expansion of export demand. Moreover, consumers receive the benefits of cheaper foreign goods, while workers are likely to be paid higher wages when transferred from declining to expanding industries. 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.[37]

Many of the European countries have adopted adjustment programmes primarily to solve problems of technological and structural unemployment, although frequently "structural" unemployment may be the direct or indirect result of the freeing of imports. With the formation of the European Coal and Steel Community and the European Economic Community, adjustment programmes have been directly designed to cushion the impact of trade liberalization upon the member countries.

It is too early to evaluate the over-all success or failure of the various adjustment programmes that have been tried in Europe. Under conditions of full employment and economic expansion, little difficulty has been experienced in finding new jobs for displaced workers. For example, in the Federal Republic of Germany, out of 72,000 workers who left the coal-mining industry between January 1958 and January 1960, about 64,000 were reabsorbed in other industries. In the United Kingdom, out of 15,000 employees made redundant by the closure of fifty-three National Coal Board pits in 1959, 14,600 were found jobs under an adjustment programme by May 1960.[38] In the textile industry of the United Kingdom, under the adaptation programme of 1959, a number of textile mills were closed down and the workers were absorbed mostly within the same industry.[39] The higher level of unemployment in Belgium, however, made it more difficult to absorb workers displaced through the closing down of Belgian coal mines by the European Coal and Steel Community, despite substantial aid from the Community for the redeployment of labour.

Nor has it been an easy matter to bring about the rehabilitation of declining industries. In the case of the British textile industry, the basic problems were excess capacity, out-of-date machinery and widespread lack of confidence preventing investment for modernization. The reorganization measures adopted were aimed, as a first step, at the elimination of redundant machinery. Approximately 12.5 million mule equivalent spinning spindles, 571,000 double spindles and 105,000 looms were offered for scrapping and a number of marginal firms were closed down. Average working hours increased as a result and higher utilization of plant in several shifts led to a considerable decrease in unit costs. To encourage technological improvements, the Government also provided a subsidy equivalent to 25 per cent of the cost of installing modern plant and equipment. Emphasis was placed on the production of higher-quality goods.[40] Confidence did not, however, return to the industry generally, and many *entrepreneurs* did not take advantage of the subsidy provision since this would have necessitated sinking additional capital into an industry about whose future they had some doubt.[41]

The adjustment plan adopted by the High Authority of the European Coal and Steel Community for the high-cost Belgian coal mines also provided for closing down the marginal pits and renovating the others, reducing the capacity of the industry by over 7 million tons. In order to enable the mines to clear the coal already accumulated at the pitheads a temporary subsidy was given to the operators. The subsidy had to be continued, however, beyond the period originally planned for, because the industry could not withstand the competition of imported coal from the other EEC countries. It has been suggested that the subsidy destroyed the incentive to renovate and prolonged the survival of the sub-marginal mines.[42]

The Belgian experience has been cited as indicating that under certain circumstances a declining industry may succeed, by undertaking minor measures of adaptation and minor innovation, in prolonging its life for a considerable period of time, even though its market may be diminishing or stagnating and its profits may be below normal.[43] In such circumstances, an adjustment programme, if not wisely administered, may postpone rather than facilitate structural adaptation and intensify the difficulties of the transitional period. It therefore appears that further study of the strategy of adjustment programmes is needed.

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[37] Beatrice N. Vaccara, *Employment and Output in Protected Manufacturing Industries* (Washington, D.C., 1960), page 62.

[38] International Labour Office, *Unemployment and Structural Change* (Geneva, 1962), page 51.

[39] United Kingdom Board of Trade, *Board of Trade Journal*, 27 May 1960, pages v and vi.

[40] *Ibid.*, 15 May 1959 and 27 May 1960.

[41] *The Times* (London), 23 October 1961.

[42] *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* (Brussels), various issues.

[43] A. Lamfalussy, *Investment and Growth in Mature Economies, the Case of Belgium* (London, 1961).

The Trade Expansion Act of the United States, passed in 1962, provides for federal assistance to firms and workers suffering losses caused by import competition. Under these provisions, firms may receive loans, loan guarantees, technical assistance and limited tax relief, while workers may receive cash payments for subsistence, retraining and relocation.

In any country where technological growth is rapid, a well-conceived adjustment programme is needed to overcome the rigidities of movement of labour and capital from declining to expanding industries and to make the transition as easy as possible. A programme of liberalization of imports from the developing countries will add only to a small extent to the cost of maintaining such a general programme. There are several ways of looking at this matter. 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, on the average, 115,000 workers, on the assumption that the secondary effects of imports are ignored. This would constitute about one-sixth of one per cent of total civilian employment in 1959.[44]

The effect of trade liberalization on employment would be greater in other countries than in the United States, partly because imports correspond to a much larger proportion of income in other countries and partly because the labour content of output is lower in the United States. The effect of liberalizing imports of manufactures from the developing countries could not, however, be very great. This may be seen from the fact that imports of manufactures from the developing countries correspond in all cases to less than one per cent of the gross domestic product of the developed countries, as may be seen from the following table:

Country	*Ratio of total imports of manufacturers from the developing countries to the gross domestic product, 1960 (percentage)*
North America	0.1
EEC	0.5
France	0.3
Germany (Federal Republic)	0.5
EFTA	0.7
United Kingdom	0.9
TOTAL	0.4

Even if these imports were increased several-fold over a period of years it is unlikely that the economies of the developed countries would suffer great injury. For example, even in the United Kingdom, where the import ratio is highest, a fivefold increase in the ratio in the next ten years would mean an annual rate of increase in imports equivalent to only one-half of one per cent of the gross domestic product.

Certainly an increase in imports of manufactures of the order of $10 billion by 1980 by all developed countries taken together, as envisaged earlier, would be a matter of small consequence, corresponding as it does to a mere one per cent or so of the *additional* demand for manufactures in these countries expected by that time.

Technical progress alone will necessitate far greater domestic adjustments than anything that is conceivable as a result of expanded imports of manufactures from developing countries. The rate of productivity growth engendered by technical progress in developed private enterprise economies has generally been of the order of 3 per cent per annum. In other words, a given volume of output could be produced in any one year with a labour force 3 per cent smaller than the year before. At the same time, the net expansion of the labour force in these countries has been averaging a little more than one per cent per annum in recent years.

The adjustments in employment required as a result of higher imports from developing countries would be quite insignificant compared with those resulting from technical progress and the growth of the labour force. For example, an expansion in imports of manufactures by 1980 of $10 billion—representing an annual rate of increase of $500 million—would hardly displace, under the most adverse conditions, one-tenth of one per cent of the total labour force of the developed countries.[45]

This is not to say that increases in imports would not cause difficulties in particular industries and localities —experience in the textile industry is sufficient to demonstrate that such difficulties can indeed arise, and that active measures of adjustment are then required. It is important, however, to place the need for such adjustment in proper perspective, and to realize that any dynamic economy is an economy undergoing change.

[44] Walter S. Salant and Beatrice N. Vaccara, *Import Liberalization and Employment* (Washington, D.C., 1961), page 215.

[45] This estimate was based on a number of simplifying assumptions, but it serves to indicate a broad order of magnitude. The estimate does not take into account the additional employment opportunities generated by correspondingly higher exports. The *net* displacement of labour would thus be far smaller even than the above figure: if exports rose as much as imports it would be limited to the difference in the labour force required for the production of the respective exports and imports.

Conclusion

The rapid growth of the import requirements of developing countries associated with their development has been accompanied by conditions of excess supply and stagnating demand in the markets for their traditional exports. If they are to pay their way in international trade, it is inevitable that their exports of manufactures to the developed countries expand several-fold over the next ten to twenty years.

This will require complementary measures by both developing and developed countries. In the developing countries, greater efforts will have to be made to produce manufactures of a quality and standard acceptable in the markets of the developed countries. In the developed countries, a concerted programme for the reduction and ultimate elimination of trade barriers is required, preferably phased in a predetermined manner so as to provide a secure basis for investment decisions in the developing countries. The adjustments needed in both groups of countries could be facilitated through joint consultation on both the technical and policy questions involved.

Appendix

Table 3-I. Imports of Manufactures into North America and Western Europe from Developing Countries,[a] 1960

SITC group	*Commodity group*	*Imports from developing countries (thousands of dollars)*	*Commodity composition of imports (percentage)*	*Share of imports from developing countries in total imports (percentage)*
	Chemicals	184,736	7.9	5.1
511, 512, 521	Chemical elements and components, mineral tar and crude chemicals from coal, petroleum and natural gas	81,656	3.5	6.1
532, 533	Dyeing, tanning and colouring materials	17,249	0.7	10.6
541	Medical and pharmaceutical products	10,456	0.4	3.3
551	Essential oils and perfume materials, etc.	35,809	1.5	30.4
561	Fertilizers, manufactured	11,126	0.5	3.2
591, 599	Explosives and miscellaneous chemical materials and products	28,440	1.2	2.4
	Manufactured goods classified by material	1,794,967	76.6	11.4
611, 612	Leather, leather manufactures, n.e.s.	68,314	2.9	23.5
621, 629	Rubber manufactures, n.e.s.	2,346	0.1	0.7
631, 632, 633	Wood and cork manufactures (excluding furniture)	70,670	3.0	12.5
641, 642	Articles made of pulp, paper and paper board	8,847	0.4	0.5
651-657	Textile yarn, fabric, made-up fabric, etc.	412,722	17.6	13.7
661-666	Non-metallic mineral manufactures, n.e.s.	9,215	0.4	1.0
671-673	Silver, platinum, gems and jewellery	106,225	4.5	14.0
681-687, 689	Base metals	1,098,936	46.9	15.9
691-699	Manufactures of metals	17,692	0.8	1.4
	Machinery and transport equipment	71,836	3.1	0.6
711, 713, 715, 716	Machinery other than electric	33,742	1.4	0.7
721	Electric machinery, apparatus and appliances	13,050	0.6	0.6
732, 733, 734, 735	Transport equipment	25,044	1.1	0.6
	Miscellaneous manufactured articles	292,870	12.5	7.6
812	Prefabricated buildings, sanitary, plumbing, heating, etc.	3,665	0.2	3.1
821	Furniture and fixtures	5,118	0.2	3.5
831	Travel goods, handbags and similar articles	2,075	0.1	3.0
841	Clothing	185,496	7.9	19.8
851	Footwear	24,884	1.1	7.4
861, 863	Professional, scientific and controlling instruments, etc.	3,983	0.2	0.8
891, 892, 899	Miscellaneous manufactured articles, n.e.s.	67,649	2.9	3.9
	TOTAL MANUFACTURES	2,344,409	100.0	6.8

Source: Organisation for European Economic Co-operation, *Foreign Trade Statistical Bulletin*, series C, "Trade by Commodities", January-December, 1960.

[a] For definitions, *see* table 3-1.

Table 3-II. Tariff Rates on Selected Commodities in North America and Western Europe, 1960

SITC group	Commodity	North America				EEC		EFTA														Share of imports from developing countries in total imports from all sources
		United States		Canada				Austria		Denmark		Norway		Portugal		Sweden		Switzerland		United Kingdom		
		(A)	(B)	(A)	(B)	(A)	(B)	(A)	(B)	(A)	(B)	(A)	(B)	(A)	(B)	(A)	(B)	(A)[a]	(B	(A)[b]	(B)	
	Chemicals																					
511	Inorganic	14	21.5	11	0.5	11	3.0	10	1.1	0	—	2	33.4	12	—	2	5.7	4	1.7	14	3.2	9.0
512	Organic	33	17.9	11	—	15	2.0	7	—	2	—	19	—	20	—	8	4.2	5	—	27	4.8	3.3
551	Essential oils, perfume materials	27	41.4	10	2.7	10	31.0	2	—	4	—	20	—	25	—	3	—	5	21.0	15	31.0	30.4
599	Miscellaneous chemical materials and products	19	21.5	12	—	13	1.6	19	—	2	0.7	19	—	25	—	3	0.5	5	0.2	11	4.7	2.4
	Manufactured goods classified chiefly by material																					
611.01	Leather, natural	10	14.4	15	—	9	17.7	6	2.7	5	7.4	11	—	...	—	7	3.7	3	0.8	14	67.5	25.8
612	Leather manufactures	17	18.5	20	—	16	4.5	18	—	12	—	19	—	22	—	9	—	6	—	20	—	5.3
631	Veneers, plywood, boards, etc.	11	14.9	9	6.6	12.5	5.1	13	—	2	—	5	—	...	—	4	1.4	11	—	14.5	7.4	9.0
632	Wood manufactures, n.e.s.	19	61.5	18	15.7	14	2.2	19	—	6	—	9	—	62	—	5	—	12	—	14	4.2	24.6
633	Cork manufactures	24	6.1	10	—	20	11.4	16	—	3	—	14	—	25.5	—	5	—	10	—	15	4.4	7.4
651.03	Cotton yarn and thread, grey	17	24.0	11	1.3	10	12.4	9	4.3	3	3.8	5	16.7	31	—	6	13.5	8	15.8	16	44.7	18.0
652.01	Cotton fabrics, grey	23	60.7	20	15.4	17	5.9	22	1.5	10	4.9	19	—	39	—	15	2.6	12	—	23	61.1	40.7
653.04	Jute fabrics	8	87.7	14	87.3	23	43.0	28	—	2	52.5	12	42.5	...	—	11	23.5	8	—	23	95.9	83.9
655	Special textile fabrics, etc. (other than clothing and footwear)	27	38.9	18	3.5	15	—	22	—	9	—	11	—	33	—	12	—	10	—	25	6.0	12.6
656	Textile manufactures, n.e.s.	30	12.5	24	2.3	19	18.1	29	—	10	—	20	6.3	...	34.1	13	5.6	12	—	31	56.7	18.0
657	Floor cover and tapestries	21	14.9	26.5	8.6	21	38.5	26	39.0	14	17.7	17	2.0	58	—	11	15.1	15	39.9	23	59.9	29.4
671	Silver and platinum group metals	33[e]	—	2	2.7	7	23.7	13	—	0	—	2	—	14	—	1	—	2	28.9	7	37.7	19.8
672	Precious and semi-precious stones, pearls, etc.	17	14.5	7	8.8	3	12.1	1	—	0	—	0	—	15	—	0	—	1	23.8	5	...	13.7
681	Iron and steel	13	3.0	12	0.1	10	0.7	12	—	1	—	3	—	11	—	5	—	6	—	14	1.9	1.0
682.01	Copper and alloys, unwrought	7.5[d]	0.7	4	—	0	53.4	0	15.5	0	2.8	0	—	2[d]	55.8	0	56.4	00[e]	41.0	10	66.4	56.1
685.01	Lead and alloys, unwrought	8[d]	36.3	16.5[d]	79.7	8	47.1	2.5[d]	—	0	4.2	0	18.4	0.5	—	0	66.7	00[e]	38.8	5	7.3	31.0
687.01	Tin and alloys, unwrought	4.5[d]	78.6	0	47.4	0	29.6	2.5[d]	—	0	9.6	0	12.4	7	—	0	16.6	00[e]	36.5	0	48.1	47.8
689	Miscellaneous non-ferrous base metals	24.5	28.7	6.5	—	8.6	25.7	3.1	—	0	—	7.9	—	15.7[a]	—	00[e]	17.7	4.6	—	14.8	15.1	22.7

Table 3-II (*continued*)

SITC group	Commodity	North America: United States (A)	North America: United States (B)	North America: Canada (A)	North America: Canada (B)	EEC (A)	EEC (B)	EFTA: Austria (A)	EFTA: Austria (B)	EFTA: Denmark (A)	EFTA: Denmark (B)	EFTA: Norway (A)	EFTA: Norway (B)	EFTA: Portugal (A)	EFTA: Portugal (B)	EFTA: Sweden (A)	EFTA: Sweden (B)	EFTA: Switzerland (A)[a]	EFTA: Switzerland (B)	EFTA: United Kingdom (A)[b]	EFTA: United Kingdom (B)	Share of imports from developing countries in total imports from all sources
	Machinery and transport equipment																					
71	Machinery other than electric	12	—	9	—	13	—	18	—	6	—	10	—	14	—	9	—	6	—	17	6.7	0.7
	Miscellaneous manufactured articles																					
841	Clothing, except fur.....	32	31.6	25	11.9	19	7.2	19	—	17	6.7	22	10.5	75	—	14	10.3	11	2.0	26	39.7	19.8
851	Footwear	19	6.5	24	6.2	19	3.3	28	—	19	—	20	—	69	—	14	0.8	11	—	25	22.0	7.4
899	Manufactured articles, n.e.s...	24	12.6	17	1.9	15	1.7	21	—	7	1.3	14	0.7	34	—	9	1.5	9	0.3	20	14.3	5.4

Source: Organisation for European Economic Co-operation, *Foreign Trade Statistical Bulletins*, series C, "Trade by Commodities", January-December 1960; Political and Economic Planning, *Atlantic Tariffs and Trade* (London, 1962).

Column (A) shows tariff rates, computed as simple arithmetical averages of the items in each commodity group.

Column (B) shows percentage shares of imports from developing countries.

[a] Converted from specific duty to *ad valorem* rates.

[b] Only the general most favoured nation rates are shown; the preferential rates applicable to Commonwealth countries are in most cases zero.

[c] 19 if gold-plated and platinum-plated silver are excluded.

[d] Mid-point of the range shown in the source.

[e] 00 indicates less than half of one per cent.

Table 3-III. Tariff Rates in North America and Western Europe, by Commodity and Stage of Processing, 1960

(*Percentage*)

Commodity	*EEC*[a]	*United Kingdom*[b]	*United States*
Cocoa			
Beans	9	1.5	0
Butter	22	4[c d]	6.2
Paste	25	7[c d]	2.0
Powder	27	13[c d]	4.2
Coffee			
Beans, unroasted	16-21	[e]	0
Beans, roasted	25-30	[e]	0
Extracts, essence, etc.	30.0	4-10[c]	1.7
Copper			
Copper mattes, unwrought copper (refined or not), waste and scrap	0	0-10	7-8[c]
Master alloys	0	10	8-22[c]
Bars, sections, wire, etc.	10	10	6-32[c]
Sheets, plates and strips	10	15	19[c]
Tube and pipe fittings (joints, elbows, sockets, flanges, etc.)	15	20	21-24[c]
Cotton			
Cotton, not carded or combed	8	0-10	0-8
Cotton yarn and thread, grey (unbleached, not mercerized)	10	16	17
Cotton yarn and thread, bleached, dyed or mercerized	13	18	14
Cotton fabrics, grey (unbleached)	17	23	23
Other cotton fabrics of standard type (not including narrow and special fabrics)	17	23	25
Iron and steel			
Iron ore	0	0	0
Pig iron and sponge iron (including iron and steel powder) and ferro-alloys	7	9	9
Ingot, blooms, slabs, billets, sheet bars and tinplate bars, etc.	7	11	12
Finished articles of iron and steel	9	14	11
Pipes and fittings, cast, whether grey iron or malleable iron	13.5	17.5	10
Jute			
Jute, raw or processed, but not spun	0	0-20	0-15
Jute fabrics	23	23	8
Leather			
Hides and skins, raw	0	0-10	0-4
Leather, natural	9	14	10
Reconstituted and artificial leather	10	10	11
Manufactures of leather and of artificial or reconstituted leather	16	20	17
Oil-seeds and vegetable oils			
Oil-seeds	0	0-10	0-49[c f]
Vegetable oils	0-20	0-15	0-45[c]
Paper			
Paper pulp	6	0	0
Newsprint	7	0	0
Common packing and wrapping paper	18	15	14
Articles made of pulp, paper and paperboard	19	18	16
Rubber			
Natural rubber	0	0	0
Rubber fabricated materials	13	14	15
Rubber tyres and tubes for vehicles and aircraft	20	27	19[g]
Wood			
Wood, roughly squared or half squared, but not further manufactured	0-5	0-10	0
Veneers, plywood, boards, artificial or reconstituted wood	12.5	14.5	11
Wood manufactures, n.e.s. (excluding furniture)	14	14	19
Cork manufactures	20	15	24
Wool			
Sheep or lamb's wool, not carded or combed	0	0-10	0-47
Yarn of wool and hair	8	17	25
Woollen and worsted fabrics	18	22	46

Source: General Agreement on Tariffs and Trade, Committee III, "Special Group on Trade in Tropical Products" (document W(62)2, 13 December 1962); Political and Economic Planning, *Atlantic Tariffs and Trade.*

[a] Common external tariff.

[b] Non-preferential rates.

[c] Converted from specific duty to *ad valorem* rate.

[d] Including revenue element in the customs duty.

[e] Equivalent to 1.7 cents per pound for unroasted coffee and 2.3 cents for roasted.

[f] 31.9 per cent for unshelled peanuts; 49.2 per cent for shelled peanuts.

[g] 10 per cent if bicycle tubes are excluded.

Chapter 4

IMPLICATIONS OF WESTERN EUROPEAN INTEGRATION FOR TRADE OF DEVELOPING COUNTRIES

Introduction

The integration of western Europe is likely to have two different types of effect on trade with the rest of the world. On the one hand, in so far as the integration process leads to an acceleration in the growth of incomes in western Europe, the total demand for imports is likely to rise accordingly. On the other hand, in so far as the new arrangements lead to a diversion in western Europe's demand away from goods which had previously been imported from other areas, towards its own produce, trade with the rest of the world will be affected adversely.

It is not possible to say in advance with any assurance which of these two influences will have the greater impact on western Europe's trade. Certainly western Europe's imports from other areas have been rising substantially since the Rome Treaty and the Stockholm Convention went into effect—as, indeed, they were before. As regards the future, it is quite possible that even if the share of other countries in the total imports of western Europe declines, a high rate of income growth will be sufficient to cause the total volume of imports to continue moving upwards none the less. On the other hand, in the event of a business slowdown in western Europe, the adverse impact of any substitution of domestic output for imports would become correspondingly greater.

Even if the over-all effect of western European integration on trade with the rest of the world is expansive, the possibility of adverse repercussions upon individual commodities or countries remains. For example, any tendency towards greater agricultural self-sufficiency in western Europe would be likely to exert a depressing effect on the market prospects of agricultural exporters in the rest of the world.

Two trade groupings are functioning at present in western Europe, namely the European Economic Community (EEC) and the European Free Trade Association (EFTA). Several considerations suggest that, of the two groupings, the EEC is likely to have the greater impact on third countries. In the first place, the EEC is larger in terms of population, total output and total foreign trade.[1]

[1] *See* the following data for 1959:

	EFTA	*EEC*
Population (millions)	89	170
Gross national product (billions of dollars)	101	157
Exports (billions of dollars)	17.0	25.2
Imports (billions of dollars)	20.0	24.3

Source: European Free Trade Association, *Bulletin* (Geneva), March 1960, page 12.

Secondly, the economic changes contemplated within the framework of EEC are greater than those within EFTA both in terms of domestic developments and as regards relations with the rest of the world. EFTA is a relatively loose association of countries that essentially maintain most of their basic economic independence: there is no requirement for a common commercial or trade policy towards other countries. Moreover, EFTA takes the form of a free-trade area, in which national tariffs against third countries are left unchanged. Internally, the elimination of tariffs is confined to industrial products, although there is also provision for co-operation in the field of agriculture.

The EEC, by contrast, provides for a degree of economic fusion that goes well beyond a free-trade area and even beyond the requirements of a customs union. Internal restrictions are to be removed not only on the free flow of goods (including agricultural products) but also on services and capital. Common policies are envisaged in the fields of agriculture, energy, transport, power, fiscal and monetary matters, the rules of competition, social legislation and so forth. Above all, the EEC is to establish a common external tariff and a common commercial policy vis-à-vis the rest of the world.

An important additional feature is the association of certain countries, mostly African States, with the EEC. The existing pattern of world trade is already influenced by the preferential arrangements between the United Kingdom and the Commonwealth and between France and the members of the French Community. The new element introduced by the EEC is the generalization of preferential arrangements to all its members as well as to their associated countries overseas, with important implications for developing countries not participating in these arrangements. It may be noted, however, that thus far the new arrangements have not taken full effect, and that no significant change in trade patterns has occurred.

In connexion with the discussion that follows, it has to be borne in mind that the integration movement in western Europe is still in a state of flux, and that rapid changes are taking place. Both EEC and EFTA are still in the transition period, and major questions of policy remain to be decided. In the case of EEC, particularly, the whole shape and character of future developments depend very greatly on the nature of the basic decisions that will be taken on a whole variety of subjects, including questions relating to agricultural policy and the admission of new members. These considerations necessarily limit the precision of any evaluation of the future impact of western European integration on the rest of the world.

The reduction of trade barriers in western Europe

The Treaty of Rome provided for the elimination of tariffs and other restrictions on intra-EEC trade and the establishment of a common tariff against the rest of the world. This was to be accomplished in stages over a period not exceeding twelve to fifteen years. In fact, however, the time-table was accelerated, and progress is now ahead of schedule. By 1 July 1962 five linear cuts in intra-EEC tariffs had taken place bringing these tariffs down to one-half of the basic rates for industrial products.[2] Hand in hand with reductions in tariffs went quota liberalization in intra-EEC trade: industrial quotas were abolished on 31 December 1961. Quantitative restrictions were, however, maintained in agriculture and in sectors involving state trading.

The discriminatory impact of the tariff reduction and harmonization programme of EEC has been moderated to some extent by deliberate measures. First, the initial 10 per cent cut in internal tariffs was extended to all GATT members wherever this did not reduce the rate below the level of the common tariff. This concession was, however, restricted to industrial goods and non-liberalized agricultural products. Secondly, the basis used in the first stage of alignment of national duties for industrial products, effected on 31 December 1960, was the common customs tariff reduced by 20 per cent.[3] Moreover, the impact of this first stage of tariff alignment was eased by granting tariff quotas to member countries to enable them to maintain certain traditional import channels. Finally, manufactures and industrial raw materials imported from third countries were in many cases freed from quota restrictions.[4]

In EFTA, internal tariff reductions have taken place approximately in step with EEC, and by 31 December 1962 these had been reduced to 50 per cent of the basic rates. These reductions were, as noted earlier, restricted to industrial goods.

[2] According to the original provisions of the Treaty, reductions to one-half of the basic rates need not have occurred before 31 December 1965. Hence, progress in the elimination of tariffs is three and a half years ahead of schedule. For agricultural products the reductions have been less than 50 per cent. However, tariffs are not the main instrument for regulation of agricultural imports.

[3] This concession was granted conditionally in anticipation of reciprocal concessions by other GATT members. The second stage of alignment due in July 1963 is also to be based on the common external tariff less 20 per cent.

[4] It should be noted however that for certain manufactures of special interest to developing countries quota restrictions continued to be applied. This relates especially to textiles. Also, in many cases, though liberalization was extended to OECD countries, quantitative restrictions continued to be applied to imports from other third countries; this had the effect of discriminating against developing countries, and minimized the significance of the liberalization policies so far as these countries were concerned. For a fuller discussion of quota restrictions on manufactures in EEC countries, *see* chapter 3.

The EEC common external tariff and the developing countries

With the elimination of internal tariffs, the key determinant of the extent of trade diversion in EEC will be the height of the common external tariff. The method used by the EEC in establishing the common tariff was, with certain important exceptions,[5] to take simple arithmetical averages of the national tariff rates (taking Benelux as a unit for this purpose), resulting in upward adjustments for the low-tariff countries and downward adjustments for the high-tariff countries. But whether or not this method satisfies the requirements of article XXIV of GATT,[6] for individual countries and regions the incidence of the tariff adjustments on trade may vary widely, depending on the one hand on the commodity composition of exports, and on the other on whether exports went predominantly to low-tariff members, such as the Benelux countries where tariffs were to be increased, or to high-tariff members, such as France and Italy, where tariffs were to be reduced. In addition, the exceptions to the general rule provided under the Treaty of Rome may be crucial for particular countries —notably the treatment of agricultural products under the common agricultural policy, and the rates specified under Lists F and G without reference to arithmetical averages.

Some indication of the likely impact of EEC tariff policies on developing countries can be obtained by examining the commodity composition of imports from these countries. This is done in table 4-1, where five major groups of commodities are distinguished, accounting for 85 per cent of EEC imports from the developing countries. About 22 per cent of these imports consist of industrial raw materials where duties are zero; for this component of imports there will be no discrimination —at least in the absence of quantitative restrictions. Tropical products for which associated countries will enjoy a preference account for some 16 per cent. Here discrimination against non-associated countries is involved, but it is not clear how important such discrimination will be in affecting established trade patterns. Moreover, as noted earlier, no significant trade diversion appears to have taken place thus far. Another 7.5 per cent is accounted for by agricultural products subject to the common agricultural policy. The important question here will be the nature of the policies to be applied to the individual products in this group and the impact of these policies on the relationship between domestic consumption and production. Of the remainder, petroleum accounts for 31 per cent and metals for 7.3 per cent. For crude petroleum a zero tariff is provided; but a common energy policy is still to be worked out, and this is intimately linked with the problem of tariff treatment of petroleum derivatives and will have a bearing on quota aspects of import policy. Processed metals will bear duties ranging from 8 to 15 per cent.

The pattern for broad geographical groupings of developing countries can be seen from table 4-1. All regions indicated have a substantial interest in the raw materials group for which EEC duties are to be zero,

[5] For certain commodities specified in Lists B, C, D and E annexed to the Treaty of Rome, the maximum rates indicated were to apply. Special rates were specified for commodities in List F, and rates for items in List G were to be negotiated among EEC member States. List G rates were subsequently agreed upon, except for petroleum products.

[6] This question was discussed at the twelfth session of the Contracting Parties of GATT but no final decisions were taken. *See* General Agreement on Tariffs and Trade, *Basic Instruments and Selected Documents; Sixth Supplement* (Geneva), March 1958, pages 70 ff.

Table 4-1. Commodity Composition of EEC Imports from Developing Countries,[a] 1961

(Percentage)

Commodity group	*All developing countries*	*Latin America*	*Middle East*	*Other Asia*	*Associated Overseas States*[a]	*Other Africa*
Temperate zone agricultural products[b]	7.5	16.3	0.4	4.8	10.6	5.6
Tropical products[c]	16.4	23.9	1.8	9.6	35.1	18.0
Industrial raw materials[d]	22.3	26.2	7.6	52.5	21.2	20.9
Petroleum	31.1	12.8	83.5	4.8	1.7	18.6
Metals	7.3	9.0	—	6.1	25.1	6.2
Other	15.4	11.8	6.7	22.2	6.3	30.7
TOTAL IMPORTS	100.0	100.0	100.0	100.0	100.0	100.0

Source: United Nations, *Commodity Trade Statistics,* Statistical Papers, series D, 1961.

[a] Country groups are defined as in the source. Developing countries refer to the world, less developed countries (North America, western Europe, Australia, New Zealand, Republic of South Africa and Japan) and centrally planned economies (Albania, Bulgaria, Czechoslovakia, Eastern Germany, Hungary, Poland, Romania, Soviet Union, China (mainland), Mongolia, North Korea and North Viet-Nam). Associated Overseas States represent the eighteen African countries; data for Somalia are, however, not included in the figures here.

[b] Main items covered by the common agricultural policy: meat, cereals, sugar, tobacco, oils and fats.

[c] Main items for which associated countries will receive a preference in EEC markets: coffee, cocoa, tea, spices, bananas, other fruit, and tropical wood.

[d] Main items of industrial raw materials for which EEC duties will be zero: hides and skins, rubber, cotton, wool, jute, vegetable fibres, iron and other ores, and oil-seeds.

but this interest is greatest for Asia, where these raw materials account for over 50 per cent of exports to EEC. The EEC common agricultural policy appears to have the greatest potential significance for Latin America, 16 per cent of Latin American exports to EEC being in this group. At the same time Latin America and non-associated African countries are the regions most likely to be affected by preferences granted to associated African countries. The position of the Middle East is unique: 83 per cent of exports to EEC consist of crude petroleum (zero tariff) and 8 per cent consist of industrial raw materials (also zero tariff). Thus, with present patterns of trade, the Middle East appears least likely to be adversely affected by EEC trade arrangements and policies.[7]

Table 4-2 shows EEC tariff treatment of the major primary commodities and metals for which such treatment is important;[8] by way of comparison the 1957 national tariffs are also given, together with weighted averages of those tariffs.[9] Very little comment is needed in reference to the group of industrial raw materials (not including metals); in most cases the national tariffs on these commodities were already zero, the main exceptions being in Italy where tariffs on cotton, jute and a few other items existed. The establishment of a zero tariff on these commodities thus represents a small net gain to the developing countries concerned.

In respect to tropical products, however, the position may be different. For one thing, duties are being raised in several member States in the process of establishing the common tariff. Even more important, perhaps, is the fact that preferences previously enjoyed by associated countries in a single member State will henceforth be enjoyed throughout the entire EEC.

The important cases where duties are being raised concern coffee and cocoa in the Benelux countries, bananas in the Federal Republic of Germany, vegetable oils and fats in Benelux and the Federal Republic of Germany, and tropical wood in Benelux, the Federal Republic and France. The significance of these cases should be viewed against the relative importance of the countries concerned as importers from non-associated countries; the pertinent data appear alongside the tariff figures in table 4-2. The relative importance of the Federal Republic of Germany as an importer of bananas and wood should, for instance, be noted in this context; also the importance of Benelux countries where cocoa is concerned. Protocols attached to the Rome Treaty provide for a quota of duty free imports of bananas into the Federal Republic of Germany[10] and coffee into the Benelux countries. Thus, in the important case of banana imports into the Federal Republic of Germany, the full impact of the 20 per cent common tariff will not be registered, at any rate for the time being.[11] The banana quota in the Federal Republic is at present substantially above what was foreseen in the Rome Treaty, but the most recent quota was granted to the Federal Republic on condition that a small quantity of bananas was purchased in the Associated Overseas States as well.

If the weighted average 1957 national tariffs are compared with the common tariff it appears that the latter is actually more favourable to the non-associated countries in respect to tropical beverages (coffee, cocoa and tea) and oil-seeds, and less favourable for bananas and tropical wood. For vegetable oils and fats there is very little difference. It should be noted, however, that for

[7] This assumes, however, that when the common energy policy is finally adopted, no basic shift in sources of supply takes place.

[8] Temperate zone agricultural products falling under the common agricultural policy are not discussed here, since for the most part imports of these products will not be regulated by tariff régimes. The implications of EEC policies covering these products are discussed below.

[9] The weights are based on the share of each EEC member State in total EEC imports from non-associated developing countries of the commodity concerned.

[10] Upon full application of the common external tariff, the quota will be 75 per cent of imports in 1956.

[11] It should be noted that the Treaty envisages the eventual abolition of these duty free quotas.

Table 4-2. Weighted Tariffs[a] of EEC Member Countries, 1957

(*Percentage*)

Commodity	Benelux		France		Germany (Federal Republic)		Italy		Average 1957 tariff of member States	EEC common external tariff
	(1)	(2)	(1)	(2)	(1)	(2)	(1)	(2)		
Coffee, unroasted	0	19	20	14	26[b]	52	10[b]	16	17.9	9.6[c]
Cocoa beans	0	31	25	8	10	50	8	10	7.8	5.4[c]
Bananas[d]	15	19	20[e]	1	0	80	[f]	0	3.0	20
Wood, rough	0	22	0	4	0	56	12	18	2.2	5
Tea	10[b]	42	30	12	55[b]	42	53[b]	4	33.0	10.8[c]
Oil-seeds	0	29	10	18	0	39	8	14	2.9	0
Vegetable oils and fats, crude	4	23	11	24	5.5	22	17	31	10.0	11
Hides and skins, raw	0	10	4	28	0	42	0	20	1.1	0
Rubber, raw	0	7	0	39	0	37	0	17	0	0
Wool, raw	0	26	0.3	32	0.3	25	0	17	0.2	0
Cotton, raw	0	12	0	44	0	30	6	14	0.8	0
Jute, raw	0	24	0	30	0	29	4	16	0.6	0
Vegetable fibres, n.e.s., raw	0	31	0	28	0	33	3.3	8	0.3	0
Iron ores	0	9	0	5	0	70	0	16	0	0
Other ores	0	39	0	35	0	23	5	3	0.1	0
Copper, unwrought	0	1	0	11	0	69	0	19	0	0
Aluminium, unwrought	0	0	20	0	5.3	0	22	0	—	9
Lead, unwrought	0	25	8	50	0	25	15	4	4.6	8[b]
Zinc, unwrought	0	0	12	0	0	100	15	0	0	7[b]
Tin, unwrought	0	0	0	50	0	0	2	50	1.0	0

Source: Tariff data based on United Nations Economic Commission for Africa, "European Integration and African Trade" (document E/CN.14/STC/4); Political and Economic Planning, *Tariffs and Trade in Western Europe* (London, 1959) and *Atlantic Tariffs and Trade* (London, 1962). Data on imports taken from United Nations, *Commodity Trade Statistics,* Statistical Paper, series D.

(1) National tariffs on 1 January 1957.

(2) Share of country indicated in total EEC imports from non-associated developing countries.

[a] Tariff rates are weighted by imports from non-associated developing countries. Where several rates apply to the same item, a simple arithmetical average has been taken.

[b] Specific duties converted to *ad valorem* equivalent.

[c] These rates reflect a 25 per cent reduction and a 15 per cent suspension of the original EEC common tariff for coffee and cocoa, and a 40 per cent reduction for tea.

[d] French territories in the Caribbean included in associated countries.

[e] Quota restrictions on imports from non-associated countries in addition to duties.

[f] State monopoly; imports from non-associated countries are largely excluded.

the beverages internal taxes are very important, and the level of import duties is accordingly not as significant as in other cases.[12] Moreover, even where duties are to be lowered, the favourable effect may be outweighed, as far as non-associated countries are concerned by the extension of preferences to the associated countries by all EEC members.[13]

Copper, lead and tin are the only metals of importance in the exports of developing countries to EEC. Unwrought copper and tin will bear zero tariffs, but the common tariff on lead will apparently be above the averages of the previous national tariffs.[14]

PROCESSED COMMODITIES AND MANUFACTURES

The discussion of the incidence of the common tariff has concentrated so far on the main primary commodities and metals. Emphasis on these is warranted by their relative importance in existing trade. Eighty-

[12] In the Federal Republic of Germany, for instance, internal taxes amounted to 100 per cent of import value in 1960 compared with import duties of about 26 per cent. In Italy, the level of internal taxes was even higher. *See* "Tropical Fruit and Beverages: Duties and Taxes in Western Europe" in Food and Agriculture Organization of the United Nations, *Monthly Bulletin of Agricultural Economics and Statistics* (Rome), December 1962. For discussion of effects of internal taxes and other obstacles to trade in tropical products, *see* General Agreement on Tariffs and Trade, Special Group on Trade in Tropical Products, Report on meeting of the subgroup established by the special group, held from 18-26 March 1963, document L/1984, 29 March 1963. Unfortunately, this document was not available in time for its findings to be taken fully into account in the preparation of this report.

[13] The effect of lowering duties should be to facilitate over-all expansion of consumption and imports, while preference would tend to favour imports from associated countries. In view, however, of the low ratio of import prices to retail prices in western Europe for most tropical foods, it is doubtful how effective lower duties will be in this connexion. In the case of beverages, a lowering of internal taxes may have significant effects, since in some countries these taxes are extremely high.

[14] Mention should be made here of a recent proposal of the EEC Commission relating to lead and zinc. For these products a common industrial and trade policy is recommended, which provides for emergency measures to protect EEC producers when world prices are abnormally low, and for suspension of duties when prices are above a predetermined level. A new customs subheading at zero duty is also recommended for lead bullion, and it is proposed that the time-table for application of common market arrangements to the entire lead and zinc section be accelerated. *See* European Economic Community, *Bulletin from the European Community* (Washington, D.C.), March 1963, page 15.

eight per cent of EEC imports from developing countries consist of primary commodities—food, raw materials and petroleum—and 12 per cent of manufactures. Three-quarters of the latter consist of base metals, and the remainder—3.3 per cent of total imports—consist of light manufactures, such as textiles, rubber and leather manufactures, and some light engineering goods (*see* table 4-3). But the present small share of manufactures in western Europe's imports from developing countries does not mean that commercial policies affecting these commodities may not be of considerable importance. Manufactures already play an important role in the exports of some developing countries, especially in Asia; and it is now well recognized that if developing countries are to be in a position to finance their future import needs, a considerable expansion in the share of semi-finished and finished manufactures in exports will be necessary.[15]

Table 4-3. Composition of Imports from Developing Countries[a] into North America and Western Europe,[b] 1960

(*Percentage*)

Commodity group	North America	EEC	EFTA	
			Total	United Kingdom
Total[c]	100.0	100.0	100.0	100.0
Primary commodities[d]	86.6	87.6	83.2	82.3
Manufactures[e]	12.9	12.1	16.0	16.8
Base metals[f]	4.3	8.6	6.9	7.0
Capital goods[g]	0.2	0.2	0.3	0.3
Other manufactures	8.3	3.3	8.9	9.5

Source: General Agreement on Tariffs and Trade, *International Trade, 1961* (Geneva).

[a] For definition, *see* table 4-1.
[b] EEC and EFTA.
[c] Including SITC sections 0 to 9.
[d] Including SITC sections, 0, 1, 2, 3 and 4.
[e] Including SITC sections 5, 6, 7 and 8.
[f] Including SITC divisions 67 and 68, excluding 681.
[g] Including SITC section 7, excluding 732.1.

Table 4-4 provides some data indicating, for the major commodities, the relative importance of processed versus crude forms in current trade flows. Broadly speaking, the pattern is similar for the three main groups of industrial countries shown.[16] The predominance of imports in crude forms is evident in most cases. The situation regarding coffee, cocoa and sugar, commodities of special interest to the less developed countries, should in particular be noted. An additional feature to note is the much lower share of the less developed countries in the more highly processed forms.

It is not always clear what determines the degree of local processing of raw materials in exporting countries. The situation no doubt differs from commodity to commodity, and evidently such factors as transport cost, technical or marketing links between producing and consuming industries, and historical accident are important.[17] It appears none the less that commercial policies of the industrial countries are among the factors tending to inhibit the expansion of exports of processed commodities. This is because the ratio of duty increases progressively with the degree of processing. This feature is typical of the tariff structures of most industrial countries, including the EEC countries.[18] The only new factor introduced by the EEC is that protection is reinforced to the extent that processing industries in each member State, as well as in the Associated Overseas States, acquire access to a Community-wide protected area.

As regards exports of finished manufactures, the obstacles faced by developing countries are, in many important cases, even more severe. Not only are tariff rates relatively high, but quantitative restrictions are often resorted to in just those cases in which the developing countries are most interested; and in some instances they are applied in a way which discriminates against developing countries. The commodity most affected by quota restrictions is, perhaps, textiles. Developing countries often have an obvious cost advantage in textile production, and are thus able to build up exports if markets are open to them. But difficulties in absorbing a rapid increase in imports of textiles have led to the extensive use of quota restrictions by developed countries. Under the recently negotiated international agreement on cotton textiles, EEC countries are to increase quotas on imports from developing countries by 88 per cent over a five-year period. It should be noted, however, that in 1960 developing countries accounted for only 4 per cent of EEC imports of textiles as against 14 per cent in EFTA countries and 22 per cent in North America.[19]

On 5 May 1961 the EEC reported to the Tariff Negotiating Committee of GATT that it had exhausted all possibilities of negotiation pursuant to Article XXIV(6) of GATT, and that negotiations had therefore been terminated. In some cases fully satisfactory agreements had been reached, in others there had been partial agreement, and in some cases negotiations had been unsuccessful.[20]

Since the Stockholm Convention does not contain provision for a common external tariff, most of the points discussed above in relation to the EEC common external tariff would not apply in the case of EFTA in quite the same way. Like the EEC countries, the EFTA countries have national tariff structures that generally discriminate against processed commodities. The Stockholm Convention is not intended to bring about a uniform degree of protection against processed commodities, but it may well extend the scope of the prevailing obstacles to imports of processed commodities from developing countries. This would occur wherever the dismantling of internal tariffs led to advantages for

[15] *See* the study on manufactures in chapter 3.

[16] It appears, however, that in many cases imports of processed relative to crude forms are greater for EFTA (largely United Kingdom) than for either EEC or North America (e.g., coffee, cocoa and leather manufactures).

[17] Interestingly enough, capital intensity does not appear in itself to be of overriding importance. For example, most metal industries (e.g., bauxite) are highly capital-intensive, but much local processing nevertheless takes place in the exporting country. The transport factor is evidently important here; equally important is the role played by foreign firms having close contact with the consuming industries.

[18] *See* chapter 3, appendix table 3-III.

[19] *See* chapter 3, table 3-15.

[20] *See* General Agreement on Tariffs and Trade, "Summary Records", SR.19/12, page 189, SR.19/6 and SR.19/7. Five countries (Austria, Czechoslovakia, Sweden, Switzerland and Uruguay) reserved the right to suspend for the time being tariff concessions previously accorded to EEC countries, on the ground that they were dissatisfied with the results of certain phases of the negotiations. For different reasons, six other countries (Australia, Brazil, Denmark, Ghana, Nigeria and Norway) did not accept the results of the negotiations. *See* United Nations, "Recent Developments and Trends in Latin American Trade with the European Economic Community" (document E/CN.12/631), page 9.

Table 4-4. Imports of Selected Processed and Crude Products, Recent Year[a]

SITC number	Commodity group	EEC		EFTA		North America	
		Total (millions of dollars)	Percentage from developing countries[b]	Total (millions of dollars)	Percentage from developing countries[b]	Total (millions of dollars)	Percentage from developing countries[b]
	Foodstuffs[c]						
	Meat	381.8		858.2		375.3	
011–012	Fresh and preserved, not canned	338.1	15.0	658.2	16.2	238.8	13.9
013	Prepared	43.7	38.2	200.0	27.9	136.5	31.2
	Fish	239.3		120.4		337.6	
031	Fresh and simply preserved	147.4	6.3	54.4	1.3	246.6	36.7
032	Prepared	91.9	29.2	66.0	3.6	91.0	7.4
	Cereals	1,140.1		593.0		59.1	
041–045	Largely unmilled	1,056.8	15.2	547.7	6.5	41.1	4.4
046–048	Prepared	83.3	11.9	45.3	0.2	18.0	2.2
	Fruits and nuts	906.7		464.6		200.5	
051	Fresh fruits and nuts	799.0	39.5	305.4	40.2	162.4	90.0
053	Prepared fruits	107.7	25.5	159.2	18.9	38.1	51.2
	Sugar	83.5		212.1		520.1	
061–01	Not refined	69.8	96.3	204.1	90.6	464.6	100.0
061–02	Refined	13.7	9.5	8.0	43.8	55.5	98.9
	Coffee	508.3		39.0		1,179.8	
071–01, 071–02	Beans	503.7	98.0	35.1	98.9	1,170.4	100.0
071–03	Soluble	4.6	15.2	3.9	12.8	9.4	100.0
	Cocoa	199.1		95.1		191.4	
072–01	Beans	179.5	99.1	63.4	99.7	172.5	100.0
072–02, 072–03	Products	19.6	41.3	31.7	44.7	18.9	30.2
	Tobacco	279.2		281.9		118.7	
121	Unmanufactured	246.0	27.2	276.4	38.2	114.2	27.8
122	Manufactured	33.2	3.3	5.5	58.2	4.5	62.2
	Industrial materials and products						
	Hides, skins and leather	468.1		289.3		294.2	
211, 212	Hides, skins and fur skins, undressed	340.2	41.1	174.2	37.7	216.1	32.8
611–613	Leather, leather manufactures and dressed furs	127.9	13.9	115.1	37.9	78.1	10.4
	Rubber	434.2		293.2		525.9	
231	Crude	341.6	72.2	227.1	81.5	443.9	92.8
621, 629	Manufactured	92.6	0.3	66.1	1.2	82.0	0.6
	Wood and cork	761.3		663.3		726.4	
241, 242, 244	Unmanufactured	251.8	46.5	82.4	37.9	58.1	14.6
243, 631–633, 811, 821	Manufactured	509.5	5.3	580.9	11.3	668.3	9.8
	Oil-seeds and oils	905.7		469.3		246.1	
221	Oil-seeds, oil nuts and oil kernels	502.0	56.7	248.9	61.9	112.5	64.1
411–413	Animal and vegetable oils and fats	403.7	44.0	220.4	48.9	133.6	61.2
	Textile fibres and products	2,581.9		1,796.7		1,583.0	
261–265, 267	Textile fibres and waste	1,496.8	40.6	920.6	40.2	495.0	50.5
651	Textile yarn and thread	301.2	3.1	161.7	6.4	57.1	6.0
652, 653, 654–657	Textile fabrics of standard type and other textile fabrics	583.9	5.7	542.9	20.5	704.1	21.3
841	Clothing	200.0	6.0	171.5	21.7	326.8	24.8

Table 4-4 (*continued*)

SITC number	Commodity group	EEC		EFTA		North America	
		Total (millions of dollars)	Percentage from developing countries[b]	Total (millions of dollars)	Percentage from developing countries[b]	Total (millions of dollars)	Percentage from developing countries[b]
	Industrial materials and products (continued)						
	Iron and steel	1,755.8		742.6		1,172.4	
281, 282	Iron ores and concentrates and scrap	535.6	19.1	215.9	40.6	377.2	48.4
681	Iron and steel	1,220.2	0.3	526.7	1.4	795.2	2.0
	Non-ferrous ores and metals	1,372.2		1,009.4		1,263.9	
283, 284	Non-ferrous ores and concentrates and scrap	325.1	52.3	173.3	65.0	456.0	83.4
682–689	Non-ferrous base metals	1,047.1	39.3	836.1	30.7	807.9	21.2
	Mineral fuels	3,201.4		2,161.4		2,093.4	
311, 312, 314	Mineral fuels and related materials	2,694.8	65.5	1,192.7	79.4	1,351.1	84.4
313	Petroleum products	506.6	27.2	968.7	43.2	742.3	88.2

Source: United Nations, *Commodity Trade Statistics,* Statistical Papers, series D, *Economic Survey of Europe in 1960* (Sales No.: 61.II.E.1); Organisation for European Economic Co-operation, *Foreign Trade Statistical Bulletins,* series C, "Trade by Commodities"; European Economic Community, *Foreign Trade Statistics,* Analytical Tables (Brussels).

[a] For foodstuffs: data for EEC refer to 1961, for North America, to 1958, and for the United Kingdom, to 1960; for industrial materials and products: data refer to 1959 in all cases.

[b] For definition of developing countries, *see* table 4-1.

[c] For foodstuffs figures under EFTA refer to United Kingdom, and figures under North America refer to United States.

processing industries located within the EFTA area in selling to the regional market as a whole. For example, while a particular EFTA country may have had no incentive, prior to the Stockholm Convention, to discriminate against imports of a given processed commodity from developing countries, the elimination of internal tariffs within EFTA may introduce such discrimination. Similarly, the internal reduction of tariffs on finished manufactures may place producers in developing countries at a disadvantage.

Implications of the EEC common agricultural policy

The Treaty of Rome provides that the Common Market shall extend to agriculture and to trade in agricultural products, and that a common agricultural policy shall be established. This common policy will on the one hand facilitate the integration of the separate national agricultural economies and on the other provide for a common approach towards outsiders.

It must be recognized at the outset that the Common Market in agricultural products will be quite different from that in industrial products. Internally, industrial products are to be traded freely, whereas the market in agricultural commodities will be essentially a managed one. Except where quantitative restrictions are maintained, imports of industrial products will be admitted freely subject to the payment of the specified tariffs. Imports of agricultural products, on the other hand, will be essentially residual in character, as under most agricultural support systems. In other words, outside suppliers will be able to enter the market only after domestic producers have disposed of their available output. More specifically, once the Common Market in agriculture has been established, producers in *all* member countries must have disposed of their crops before outside suppliers can enter the market of *any* member State, price competition being ruled out. Thus, suppliers in each member country will have a prior claim not only on their own domestic markets, but on the markets of the other member countries as well. Under these conditions, the position of existing exporters to certain of the EEC member countries may well become precarious.

Approximately one-half of EEC imports from third countries in 1957 consisted of agricultural products.[21] Of these, about 30 per cent, consisting primarily of temperate zone products, are covered by the common agricultural policy. In addition, other agricultural products, though not expressly covered, will be indirectly affected, inasmuch as conditions of joint supply affect domestic output. Examples are such industrial raw materials as hides and skins, wool and oil-seeds, all bearing zero tariffs.

Although a major producer of agricultural commodities, the EEC is a large importer as well, and accounts for a considerable share of world trade. In 1957 the EEC took a quarter of world imports of the main commodities covered by the common agricultural policy, as shown in table 4-5, and was the world's second largest importer.

[21] The figures below indicate the position in 1957 (in billions of dollars), based on data in General Agreement on Tariffs and Trade, *International Trade, 1959* (Geneva, 1960) and European Economic Community Commission, "Proposals for the Common Agricultural Policy" (VI/COM (60) 105) (Brussels, 1960).

Imports into EEC from non-member countries

All commodities	17.7
Agricultural products	8.9
Products covered by common agricultural policy[a]	2.6

[a] Including meat, cereals, fruit and vegetables, sugar, tobacco, oils and fats.

Table 4-5. Share of EEC and Other Countries in World[a] Imports[b] of Selected Agricultural Commodities, 1957

Commodity	EEC	United Kingdom	Other Europe[c]	North America	Rest of world	World[a] imports[b] (millions of dollars)
			(percentage)			
Cereals	27	19	12	4	38	3,297
Sugar	12	26	7	36	19	860
Meat	14	60	5	15	6	1,422
Dairy products	24	43	5	4	24	1,224
Oils and fats	44	16	12	9	19	1,285
Fruits and vegetables	30	27	9	20	14	1,900
TOTAL	26	30	9	12	23	9,988

Source: European Economic Community Commission, *Proposals for the Working-Out and Putting into Effect of the Common Agricultural Policy* (Brussels, 1960), page I/46.

[a] Total for sixty-four countries, excluding Soviet Union, eastern Europe and China (mainland).

[b] Excluding trade between EEC countries.

[c] Not including Soviet Union and eastern Europe.

EEC sources of supply for imports of these commodities are shown in table 4-6. It has often been suggested that the common agricultural policy adopted by EEC is not a matter of major consequence to the developing countries since the commodities affected are imported largely from developed countries. It should be

Table 4-6. Imports of Selected Agricultural Commodities into EEC: Distribution by Origin, 1958

(*Percentage*)

SITC number	Commodity	Share in total imports			Share in imports from non-member countries[a]		
		EEC	Overseas territories and departments	Non-member countries[a]	Developed countries[b]	Less developed countries: South America	Less developed countries: Other
	Foodstuffs, mainly temperate zone						
04 (excluding 042)	Cereals (excluding rice)	11	3	86	62	21	17
01	Meat	27	1	72	64	24	12
02	Milk, butter, cheese, eggs	48	—	52	85	3	12
03	Fish	23	4	73	72	—	28
	TOTAL	24	2	74	67	17	16
07	Tropical beverages and spices	4	29	67	3	—	97
	Other foodstuffs						
042	Rice	13	14	74	16	2	82
06	Sugar	9	44	47	20	—	80
051-055	Fruits and vegetables	28	17	55	53	3	44
22, 4	Oil-seeds, oils and fats[c]	5	26	69	44	5	51
12	Tobacco	8	6	86	73	—	27
11	Beverages	12	58	30	56	3	41
09	Miscellaneous food preparations	39	1	60	48	1	51
	TOTAL	16	27	57	51	3	46
244, 265	*Agricultural raw materials*[d]	26	6	68	23	—	77

Source: European Economic Community Commission, *Proposals for the Working-Out and Putting into Effect of the Common Agricultural Policy*, page I/40.

[a] World, excluding EEC member countries and overseas territories and departments.

[b] North America, western Europe other than EEC, Australia and New Zealand, eastern Europe and Soviet Union.

[c] Exluding butter.

[d] Those listed in the Treaty of Rome: cork, linseed and hemp.

emphasized, however, that while developed private enterprise countries (North America, western Europe, Australia and New Zealand) do indeed supply a major part of EEC imports of the predominantly temperate zone products—about 58 per cent in 1958—the share of the less developed areas is also considerable—33 per cent—especially for cereals and meat. For other commodities less restricted to temperate climates but covered none the less by the common agricultural policy (such as rice, sugar, oils and fats), the share of the less developed countries in EEC imports is even greater.

The position for the main geographical groups of developing countries is shown in table 4-7. The Latin American countries are clearly the most intimately affected by the common market arrangements relating to agriculture, a substantial part of their exports of meat, cereals, feedstuffs, tobacco and oils and fats being sent to EEC countries.[22] For the other areas the trade flows involved are not as great, but in many cases these are important for particular countries.[23]

For several important products the basic framework of the common agricultural policy is now known.[24] In the case of grains, the basic instrument of control is the variable import levy which is equivalent to the difference between the price level desired in the importing country and any lower price offered by the exporting country. The levy against imports from non-member countries is set in such a way as to ensure preference for members of the Community.

For pig meat, poultry, eggs, fruits and vegetables there is provision for tariffs, but the system none the less envisages establishment of "reference prices" or "sluice prices" as a basis for the imposition of compensatory taxes or variable import levies if low-priced imports threaten to disrupt EEC markets. Import certificates are also required in certain cases.

Other measures implementing the common agricultural policy include the creation of various marketing organizations for the most important products, the fixing of criteria for the establishment of minimum prices by member countries seeking to offset any adverse effects of internal reductions in tariffs and quotas, and the setting up of the European Agricultural Guidance and Guarantee Fund.[25] The Fund, *inter alia*, subsidizes exports to non-member countries.

From the standpoint of outside exporters to the EEC, the variable levy system presents important practical problems since it may be difficult or impossible to evaluate the conditions of access to EEC markets at the time of shipment—a consideration especially important for distant exporters. Moreover, since in the determination of sluice prices quality differences are not, and scarcely could be, taken fully into account, the system may have detrimental effects on exporters of lower-quality products who are unable to sell at correspondingly lower prices.[26] In general, the complicated procedures required under existing EEC agricultural arrangements appear to have caused considerable difficulties for domestic and foreign suppliers alike.

More important in the long run is the insulation of domestic producers from outside competition which is achieved by the variable levy system. Under this system, no quantitative restrictions on production are at present contemplated, so that production will largely be regulated by the levels at which domestic prices are set: the higher these levels, the greater the encouragement to domestic production and self-sufficiency.

The level at which Community prices will ultimately be harmonized has not yet been determined, and this question will evidently be a matter for delicate and perhaps protracted negotiation among EEC countries.[27] It seems reasonable to assume, however, that the prices eventually decided on will fall within the ranges at present obtaining in the EEC countries. For most commodities this would involve a rise in producers' prices in France and the Netherlands, and a fall in the Federal Republic of Germany and Italy. In the former countries output would be stimulated, and it is generally assumed that the opposite would happen in the latter.[28]

Thus, much may depend on the level at which EEC common agricultural prices are ultimately set. Important also will be the extent of alternative employment opportunities available to the farming population in the high-cost countries and the vigour of measures to facilitate a rapid outflow of labour into non-agricultural occupations.

Certainly the post-war trend in western European agriculture thus far has been towards greater self-sufficiency.[29] In the face of an almost unchanged area under cultivation and a steady decline in agricultural employment, agricultural output has increased steadily in western Europe over the past decade. Productivity, whether measured by crop yield per hectare, or by output per man, has risen considerably.

It may well be that even if relatively low producers' prices were agreed upon, and even if measures were taken to accelerate the outflow of labour from farming, the EEC's agricultural output would continue to expand. Comparatively high pries could, of course, only increase the rate of expansion.

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22 The low ranking of sugar in this trade flow largely reflects the trend towards self-sufficiency in EEC member States. Between 1948-1952 and 1957-1958, the degree of self-sufficiency for EEC countries as a whole increased from 81 per cent to 94 per cent. *See* United Nations, *Economic Survey of Europe in 1960,* chapter III, table 18.

23 For Africa, EEC is an important market for some of these commodities, notably oils and fats and cereals. These trade flows largely reflect special relations between EEC member States and certain African countries. Rice is an important export to EEC from some Asian countries.

24 The first decisions were taken in January 1962, and these have since been amplified and expanded. *See* General Agreement on Tariffs and Trade documents COM.II/134 (cereals), COM.II/134/Add.1 (pig meat, eggs, poultry meat, fruit and vegetables), and L/1910 for a description of the common agricultural policy as it has so far evolved. *See also* chapter 2 of the present publication.

25 Contributions to the Fund are at present based partly on the scale laid down in article 200 [1] of the Rome Treaty and partly on the value of net imports by each member State from non-member countries.

26 This type of consideration might be especially important to particular countries. *See* General Agreement on Tariffs and Trade document L/1910 for discussion of some of the problems created by the common agricultural policy.

27 For wheat, agreement on the first step towards harmonization was supposed to have been reached by 1 April 1963, but this did not prove possible.

28 Conceivably, however, farmers in countries reducing prices may maintain or even increase output so as to protect their incomes.

29 *See* United Nations, *Economic Survey of Europe in 1960,* chapter III, table 18.

Table 4-7. Pattern of Trade of Developing Countries in Selected Commodities Covered by EEC Common Agricultural Policy, 1961

(Millions of dollars)[a]

SITC number	Commodity	Imports from Latin America into			Imports from Middle East into			Imports from other Asia into			Imports from other Africa into			Imports from developing countries into		
		EEC	United Kingdom	United States	EEC	United Kingdom	United States	EEC	United Kingdom	United States	EEC	United Kingdom	United States	EEC	United Kingdom	United States
	Meat															
011	Fresh, chilled or frozen.....	44.9	101.9	32.3	0.5	—	—	—	—	0.3	2.7	4.3	—	48.3	106.4	32.6
012	Dried, salted, smoked.....	2.4	—	0.5	—	—	—	—	—	—	—	0.1	—	2.4	0.2	0.5
013	Canned and preparations.....	14.0	39.4	42.6	1.1	0.1	—	—	—	—	1.6	15.3	—	16.7	55.7	42.6
	Fish															
031	Fresh and simply preserved...	0.5	0.2	73.0	0.3	—	1.8	0.3	0.1	3.2	7.1	—	4.1	9.4	0.7	90.6
032	Canned and preparations.....	2.1	2.1	4.1	1.3	—	0.5	0.2	0.3	0.5	23.2	—	0.8	26.9	2.4	6.7
	Cereals															
041-045	Cereals, largely unmilled	129.3	23.8	1.8	3.1	1.2	—	7.5	3.0	—	18.4	7.5	—	160.6	35.9	1.8
041	Wheat	22.4	12.4	—	0.5	—	—	—	—	—	4.4	—	—	27.5	12.4	—
042	Rice	2.5	0.7	—	2.3	0.8	—	7.5	3.0	—	4.8	—	—	19.0	4.7	—
043-045	Other cereals	104.4	10.7	1.8	0.3	0.4	—	—	—	—	9.2	7.5	—	114.1	18.8	1.8
	Cereals, prepared	—	—	—	—	—	—	—	—	0.3	9.9	—	—	9.9	0.2	0.4
046	Wheat flour	—	—	—	—	—	—	—	—	—	7.7	—	—	7.7	0.1	—
047	Flour, etc., n.e.s.....	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
048	Other cereals	—	—	—	—	—	—	—	—	0.3	2.2	—	—	2.2	0.1	0.4
053	Fruits, prepared	1.7	0.7	6.2	2.2	5.6	—	7.0	13.4	13.2	12.2	1.8	—	27.5	30.1	19.5
061	Sugar	13.9	33.3	238.7	1.6	0.1	0.2	0.1	0.2	187.6	38.3	29.4	1.0	80.3	127.1	469.5
081	Feeding stuff for animals.....	109.0	20.2	15.5	8.4	2.0	—	9.3	50.5	0.9	27.0	20.8	—	154.7	95.7	16.5
	Tobacco															
121	Unmanufactured	20.6	0.5	25.9	0.3	0.2	1.2	18.6	26.8	3.5	27.2	78.1	0.5	66.8	105.7	31.7
122	Manufactured	0.6	1.9	2.5	—	0.1	—	—	—	0.3	0.4	—	—	1.1	3.2	2.8
	Oils and fats.....	69.9	12.4	34.0	2.2	0.7	0.3	16.7	17.3	18.6	103.6	39.5	9.9	196.3	76.6	62.8
411	Animal oils and fats.....	11.0	1.2	1.5	—	—	—	—	—	—	0.8	—	—	12.2	3.0	1.5
412	Vegetable oils and fats.....	55.8	9.3	21.0	2.2	0.5	—	16.1	17.3	18.6	101.6	38.8	9.6	179.0	70.8	49.2
413	Oils and fats processed....	3.1	1.9	11.5	—	0.2	0.3	0.6	—	—	1.2	0.7	0.3	5.1	2.8	12.2
	Total, above commodities	408.9	236.4	477.1	21.0	10.0	4.0	59.7	111.6	228.4	271.6	196.8	16.3	800.9	639.9	778.0
	Total imports (0-9)	1,806.3	780.7	3,147.4	2,018.8	966.4	380.2	894.9	1,003.5	1,207.8	2,619.3	840.9	390.5	7,554.4	3,912.3	5,626.3

Source: United Nations, *Commodity Trade Statistics*, Statistical Papers, Series D, part I—Imports, 1961.

[a] C.i.f. values, except United States, for which data are based on f.o.b. values.

Food consumption levels for EEC countries and the United States are shown in table 4-8 for a few important commodity groups. Per capita consumption of cereals is lowest in the United States, where per capita income is highest, and highest in Italy, where per capita income is lowest. For meat and dairy products, on the other hand, the opposite situation prevails. This suggests the trend in the pattern of EEC food consumption as higher levels of per capita incomes are attained: per capita consumption of cereals and other low-grade foodstuffs can be expected to fall and that of meat, dairy products and other high-grade foodstuffs to rise.

Table 4-8. Food Consumption Levels in EEC and United States, 1956/57-1958/59

Commodity	*Belgium*	*France*	*Germany (Federal Republic)*	*Italy*	*Netherlands*	*United States*
Cereals[a]	93	108	90	142	86	67
Vegetables[a]	68	127	47	113	68	97
Fresh fruit[a]	57	44	71	68	52	66
Meat[a]	56	70	52	23	43	82
Milk and dairy products[b]	18	17	19	10	23	26
Animal protein as percentage of total protein	53	51	57	33	54	71
Calories from cereals and potatoes as percentage of total calories	40	43	39	56	34	24

Source: United Nations, *Economic Survey of Europe in 1960*, chapter III, page 30.

[a] Kilogrammes per head per year.

[b] Grammes per head per day.

Some projections to 1970 made recently by the EEC Commission give some indication of the likely trends in production, consumption and net imports for the major agricultural products. The consumption projections are based on assumed rates of growth of income and population, and on estimated demand elasticities. Production projections are obviously more tentative, and assume continuation of certain productivity trends. Table 4-9 summarizes some of the results. The projections suggest that surpluses of dairy produce will probably be maintained, and that complete self-sufficiency will be attained in wheat.[30] Unless a relatively high rate of growth in income takes place, the Community may also come close to self-sufficiency in beef and veal. Because of the very rapid increase in meat production anticipated, the share of imports in coarse grain supplies may be maintained. In the case of sugar, consumption is shown as rising faster than production: this, however, seems to be at variance with the prospects for sugar as viewed by FAO.[31]

It is, as always, difficult to reach a judgement about the reliability of such projections. The trend towards agricultural self-sufficiency in western Europe is, however, unmistakable. Even on the assumption that internal prices are set near the lowest of the prevailing country levels rather than near the highest, in so far as the common agricultural policy gives Community producers first claim upon Community markets, it will tend to shift sources of supply for agricultural products away from third countries and accelerate the movement towards self-sufficiency.

[30] This applies to soft wheat only. For durum wheat and high-grade wheat, imports are likely to continue to play an important role.

[31] *See* Food and Agriculture Organization of the United Nations, *Commodity Policy Studies No. 13, Agricultural Commodities and the European Common Market* (Rome), pages 40 ff.

Table 4-9. Selected Foodstuffs: Projections of EEC Consumption, Production and Self-sufficiency,[a] 1970

	Degree of self-sufficiency								
		1970							
		A		*B*		*Consumption, 1970*		*Production, 1970*	
Commodity	*1958*	*(1)*	*(2)*	*(1)*	*(2)*	*A*	*B*	*(1)*	*(2)*
	(percentage)					*(index, 1958 = 100)*			
Dairy produce	103.0	103	115	101	112	121.5	124.8	121.6	135.0
Beef and veal	92.3	98.8	99.4	93.2	93.7	144.2	152.8	154.4	170.8
Sugar	97.6	—	—	95.5	92.5	130.0	134.0	—	126[b]
Wheat[c]	93.0	—	100.0	—	100.0	124.0[d]	127.0[d]	126	126
Other cereals	77.7	—	80.0	—	77.0				

Source: European Economic Community Commission, *Marché commun des produits agricoles: perspectives "1970"*, Etude No. 10 (Brussels, 1962) (provisional edition).

A: Annual rate of growth of income assumed as 4.0 per cent.

B: Annual rate of growth of income assumed as 4.9 per cent.

(*1*): Low production projection.

(*2*): High production projection.

[a] Production as percentage of supply (production plus net imports).

[b] Refined sugar.

[c] Exclusive of durum wheat, for which a special study is being prepared by the EEC Commission.

[d] Direct and indirect consumption.

Implications of association with EEC

One feature of the Treaty of Rome which gives it a special character is the provision it contains for association with EEC of certain former dependencies of EEC member States (referred to as Associated Overseas States, or AOS).[32] The Treaty of Rome does not clearly provide for the complete elimination of tariffs on imports from member countries by the AOS. This has raised issues concerning the compatibility of these arrangements with the requirements of GATT regarding customs unions and free-trade areas: a number of countries have suggested that a new preferential area has, in effect, been created in conflict with GATT. No decision on this matter has been taken by GATT, and the legal question therefore remains unresolved.

The economic significance of the association arrangements is that they broaden the area within which preferential trading takes place. Naturally, the larger the preferential area, the greater the scope for internal self-sufficiency, and the more seriously may the trade of non-member countries be affected.

The Associated Overseas States[33] comprise a population of about 46 million thinly spread over a large territory.[34] Exports consist largely of a few tropical products (except for Congo (Leopoldville) where metals are important), and traditionally the bulk of these are sent to the metropolitan countries (*see* tables 4-10 and 4-11).

The object of association is (in the words of article 131 of the Rome Treaty) "... to promote the economic and social development of the countries and territories and to establish close economic relations between them and the community as a whole". This objective is to be achieved by measures on two levels: by creation of a preferential trading system, and by financial and technical aid. Association in effect extends to the entire EEC area preferential arrangements previously existing between metropolitan countries and many of their former colonies (mostly French).[35]

As regards the régime governing trade relations between EEC and AOS, the arrangements set forth in

[32] In addition to the association of countries having special relations with members of the Community, provided for under article 131 of the Rome Treaty, article 238 allows for the association of other countries, and has been applied to give associate membership to Greece.

[33] These are, as listed in the recently negotiated Convention of Association, Burundi, Cameroon, Central African Republic, Chad, Congo (Brazzaville), Congo (Leopoldville), Dahomey, Gabon, Ivory Coast, Madagascar, Mali, Mauritania, Niger, Rwanda, Senegal, Somalia, Togo and Upper Volta. In addition to AOS, the overseas departments and territories of EEC member States receive privileged treatment within the Community as a whole.

[34] They occupy an area larger than the United States or Canada.

[35] Certain African countries subject to the Congo Basin treaties did not, however, grant reciprocal preferences to the metropolitan countries prior to the Rome Treaty.

Table 4-10. Imports from Former Belgian Associated African Countries,[a] into North America and Western Europe,[b] by Commodity, 1960

SITC number	Commodity	Percentage of imports into North America and western Europe					Imports into North America and western Europe (millions of dollars)
		EEC					
		Belgium-Luxembourg	Other EEC	Total	EFTA	North America	
051	Fruits (largely bananas)	55.9	20.6	76.5	23.5	—	3.4
055	Vegetables, prepared	4.5	90.9	95.5	4.5	—	2.2
061	Sugar	100.0	—	100.0	—	—	1.6
071	Coffee	12.2	21.2	33.4	6.6	60.0	48.2
072	Cocoa	42.9	53.6	96.4	3.6	—	2.8
074	Tea	—	4.5	4.5	63.6	31.8	2.2
081	Feeding stuff (largely oil-seed cake and meal)	10.4	71.6	82.1	17.9	—	6.7
211	Hides and skins, undressed	33.3	33.3	66.7	—	33.3	0.3
221	Oil-seeds, nuts, kernels	34.2	63.2	97.4	2.6	—	3.8
231	Rubber	19.8	40.9	60.7	4.1	35.1	24.2
242, 243	Wood, rough and shaped	21.9	60.3	82.2	16.4	1.4	7.3
263	Cotton	50.7	44.3	95.0	5.0	—	21.9
265	Sisal and other vegetable fibres	66.7	33.3	100.0	—	—	0.9
283	Non-ferrous ores	83.1	5.4	88.5	1.4	10.1	72.4
284	Non-ferrous metal scrap	37.5	37.5	75.0	12.5	12.5	0.8
291	Crude animal materials, n.e.s.	80.0	20.0	100.0	—	—	0.5
292	Crude vegetable materials, n.e.s.	5.3	18.4	23.7	15.8	60.5	3.8
412, 413	Vegetable oils and fats	18.1	51.7	69.8	4.8	25.4	56.3
682	Copper	71.5	26.9	98.4	1.5	0.1	191.5
686, 687	Tin and zinc	48.7	3.3	52.0	25.0	23.0	15.2
689	Miscellaneous base metals	62.1	1.6	63.7	3.6	32.7	24.8
	Total, above (millions of dollars)	262.0	132.6	394.6	22.2	74.0	490.8
	Total imports (millions of dollars)	266.2	135.1	401.3	23.4	77.0	501.7

Source: Organisation for Economic Co-operation and Development, *Foreign Trade Statistical Bulletins*, series C, "Trade by Commodities".

NOTE: The f.o.b. values for Canada and United States have been adjusted by adding 10 per cent of those values to make them comparable with the c.i.f. values for EEC and EFTA.

[a] Burundi, Congo (Leopoldville), Rwanda.

[b] EEC and EFTA.

Table 4-11. Imports from Former French Associated African Countries,[a] into North America and Western Europe,[b] by Commodity, 1960

SITC number	Commodity	Percentage of imports into North America and western Europe					Imports into North America and western Europe (millions of dollars)
		EEC					
		France	Other EEC	Total	EFTA	North America	
031, 032	Fish, fresh and fish preparations	77.1	—	77.1	—	22.9	4.8
051	Fruits (largely bananas)	99.3	0.7	100.0	—	—	13.4
053	Fruit preparations	96.3	3.7	100.0	—	—	2.7
071	Coffee	70.4	5.8	76.3	0.5	23.1	76.3
072	Cocoa	45.0	28.9	74.0	1.3	24.8	31.1
081	Feeding stuff (largely oil-seed cake and meal)	31.8	8.1	39.9	60.1	—	14.8
121	Tobacco, unmanufactured	60.0	40.0	100.0	—	—	0.5
211	Hides and skins, undressed	72.4	6.9	79.3	10.3	10.3	2.9
221	Oil-seeds, nuts and kernels	92.7	4.4	97.1	2.6	0.4	81.9
231	Rubber	60.0	—	60.0	—	40.0	0.5
242, 243	Wood, rough and shaped	42.3	46.0	88.2	9.6	2.2	95.1
263	Cotton	85.8	13.0	98.8	1.2	—	16.9
265	Sisal and other vegetable fibres	100.0	—	100.0	—	—	0.1
271	Fertilizers, crude	84.0	16.0	100.0	—	—	2.5
272	Stone, granites, etc.	27.3	54.5	81.8	—	18.2	1.1
283	Non-ferrous ores	51.2	23.3	74.4	25.6	—	4.3
292	Crude vegetable materials, n.e.s.	95.5	—	95.5	4.5	—	2.2
312, 313	Petroleum and petroleum products	96.9	3.1	100.0	—	—	16.0
412, 413	Vegetable oils and fats	99.4	0.4	99.8	0.2	—	46.2
561	Fertilizers, manufactured	80.0	—	80.0	20.0	—	0.5
631	Wood, simply worked	37.0	12.9	50.0	27.4	22.6	6.2
656	Made-up articles, chiefly textiles	100.0	—	100.0	—	—	0.4
	Total, above (millions of dollars)	296.6	68.3	364.9	24.6	30.9	420.4
	Total imports (millions of dollars)	297.4	69.5	366.9	26.8	31.6	425.3

Source: Organisation for Economic Co-operation and Development, *Foreign Trade Statistical Bulletins*, series C, "Trade by Commodities".

NOTE: The f.o.b. values for Canada and United States have been adjusted by adding 10 per cent of those values to make them comparable with the c.i.f. values for EEC and EFTA.

[a] Including former French Equatorial Africa (Central African Republic, Chad, Congo (Brazzaville) and Gabon) and former French West Africa (Dahomey, Ivory Coast, Mali, Mauritania, Niger, Senegal and Upper Volta).

[b] EEC and EFTA.

the recently negotiated Convention of Association[36] may be briefly summarized. Intra-EEC tariff reductions will be extended to AOS. In addition, EEC undertakes to establish common external tariffs on tropical products of special interest to AOS in order to ensure a margin of preference. The régime governing trade flows in the opposite direction is not, however, as clear cut. Several obligations on the part of AOS can none the less be identified, although, as will become clear, much will depend on how these are interpreted and applied. On the one hand, AOS undertake not to discriminate between EEC members, or against EEC members as a group. On the other hand, AOS will be allowed to protect domestic industry even against imports from EEC members.

AOS agree to eliminate gradually (by 15 per cent annually) customs duties on imports from EEC member States, the reductions to start no later than six months after the Convention enters into force. Similarly, quantitative restrictions on such imports are to be eliminated. Safeguard clauses permit AOS to impose or maintain tariffs and quantitative restrictions for purposes of economic development, industrialization, or public revenue, subject to consultation with the Community.

An important feature of the Convention is the provision under article 9 that customs unions between AOS and third countries are permissible if not "incompatible with the principles or provisions of the Convention".[37] On the other hand, AOS are precluded by article 7 from granting third countries treatment more favourable than those accorded to EEC member States. Some concern has been expressed that unless the EEC were prepared to forgo its rights under article 7 in a particular case, this provision could be interpreted as preventing the AOS from granting any tariff preference to other African countries and hence impede the creation of regional common markets in Africa going beyond the scope of AOS. However, the Standing Committee on Trade of the Economic Commission for Africa has reported a statement by the representative of the EEC to the effect that "the associated countries could conclude trade and tariff agreements with non-associated African countries even if such agreement would involve discrimination against the Six".[38]

While the full significance of the Convention of Association for the import trade of AOS has yet to be determined, the implications of the Convention for the

[36] This Convention had not yet been ratified at the time of writing.

[37] Article 8 permits the maintenance or establishment of customs unions or free-trade areas among the AOS.

[38] Document E/CN.14/174, paragraph 19.

imports of EEC members is somewhat clearer. Most of the tropical products for which AOS will enjoy preferences in EEC markets are of special interest to various third countries, many of whom depend in large measure on EEC markets for their exports (table 4-12 indicates the position for broad geographical areas). The extent of any adverse impact on non-associated countries will depend, *inter alia,* on the degree of discrimination involved, on the ease with which associated countries can expand output to meet EEC demand, and on the balance between world demand and supply for the respective products.

The general characteristics of the common external tariff have already been described. Zero tariffs on most industrial raw materials preclude a preference to AOS: an exception is tropical wood, where a low tariff is provided.[39] For most tropical foodstuffs, however, the common tariff establishes a preference in favour of AOS. As a concession to third countries many of these were reduced by up to 40 per cent from previously established levels during negotiations leading to the new Convention of Association, and now stand at the levels shown in table 4-2.[40] The rate on cocoa beans is now relatively moderate at 5.4 per cent, but coffee and tea will bear substantial duties (9.6 and 10.8 per cent, respectively), and the same applies to vegetable oils, spices, bananas (bearing a tariff of 20 per cent which was not reduced in the negotiations),[41] and several other important products.

While the degree of discrimination against non-associated countries under the new Convention is less than that envisaged in the Treaty of Rome, the introduction of the programme is to be accelerated. Thus coffee, cocoa, tea, pepper, pineapples, coconuts and certain other products (though not bananas) will be admitted free of duty from AOS into the six Common Market countries immediately the new Convention enters into force, and the full common external tariff will then apply to imports from third countries.[42] This represents a considerable speeding up of the original schedule, which envisaged the adjustments to be made over a period of years.

As is evident from tables 4-10 and 4-11, the EEC (and, more particularly, the respective metropolitan country) now takes the bulk of exports from the associated countries. At the same time, for all the important tropical products, AOS supply only a fraction of current EEC import requirements (*see* table 4-18 below) the remainder being supplied by non-associated countries. Two implications follow in the context of the new preferential arrangements. First, there is little scope for a mere shift in trade currents—that is, for non-associated countries to absorb markets in third countries to be vacated by AOS. Secondly, there is considerable scope—potentially and in the long run—for AOS to displace non-associated countries in EEC markets. Much will thus depend on how production responds in the associated States.

The secretariat of the Economic Commission for Africa has stated that existing information on supply conditions in African countries and on the reactions of producers in the associated African countries and elsewhere in Africa to past changes is inadequate to permit a satisfactory assessment of the probable effects of the preferential arrangements on production. It would appear, however, that output of most primary commodities likely to be influenced by the preferential tariff provisions in the Rome Treaty is fairly inelastic in the short run. Except in the case of coffee, production of which is increasing sharply in the associated countries, shifts in EEC imports towards these countries may not greatly affect the total volume of exports of other countries exporting tropical products. However, even a relatively small addition to the total exportable supply of particular primary commodities could bring about declines in prices, and hence in the export earnings of third countries, because of inelastic demand. In the longer run, it would appear reasonable to expect the fulfilment of the basic objective of the Convention of Association in this field, namely, to enable the associated countries to increase their share in the EEC market.[43] On the other hand, as has already been noted, a high rate of income growth in the EEC countries may be sufficient to raise the volume of imports from third countries none the less.

It should be borne in mind that preferential tariff treatment is not the only device whereby exports of AOS to the EEC area may be fostered. For example, the Convention of Association grants nationals of EEC member States establishment rights in AOS, and provides for the free flow of capital. In these circumstances, there may be incentives for new investment to take place in the production of tropical products for export from AOS.

In addition to the arrangements governing trade relations, association further provides for financial and technical aid. Financial aid amounting to $730 million is to be provided to the associated States during the five years covered by the Convention, most of it in the form of outright grants. Of this sum, approximately $500 million will be used for investments in social and economic infrastructure (transport and power facilities, education, etc.) and the remainder for "production and diversification aid". While "diversification aid" is intended to assist in replacing the prevailing system of mono-culture with a more broadly based production structure, "production aid" will be used to ease the transition to future marketing at world prices, and may take the form of direct subsidies. The latter component of aid, which is to be provided to eleven members of the French Community,[44] will thus replace the present system of guaranteed prices under which these countries now export to France. It is expected that production aid will gradually taper off over a five-year

[39] The *New York Times* of 3 April 1963 reported conditional EEC agreement to reduce the tariff on tea and tropical hardwoods.

[40] It should be noted, however, that part of the reductions took the form of "suspensions", and to this extent may, presumably, be reimposed.

[41] So long as it is maintained, the duty free quota of bananas allowed to the Federal Republic of Germany will mitigate the impact of this duty.

[42] The application of the tariff is subject to the tariff quotas provided for imports of bananas from third countries by the Federal Republic of Germany and for unroasted coffee imported by the Benelux countries and Italy. It has, nevertheless, been agreed that the common external tariff for imports of coffee from third countries should be gradually applied, beginning with one per cent up to the end of 1965, 5 per cent from then until 1970, and the full tariff thereafter.

[43] United Nations Economic Commission for Africa, "The Impact of Western European Integration on African Trade and Development" (document E/CN.14/72), pages 65 and 93-94.

[44] Cameroon, Central African Republic, Chad, Congo (Brazzaville), Dahomey, Ivory Coast, Madagascar, Mali, Niger, Senegal, Togo. The commodities affected by production aid include coffee, cocoa, peanut oil, palm oil, pepper, rice and sugar, all of which will enjoy preferential treatment in EEC.

Table 4-12. Imports from Developing Countries[a] into North America and Western Europe: Distribution by Destination, 1961

SITC number	Commodity and region	Share of EEC	Share of EFTA	Share of North America	Total for developed countries (millions of dollars)	Share in total imports[b]
		(percentage)				(percentage)
051	*Fruits*					
	All developing countries....	46.1	25.2	28.7	684.8	3.5
	Latin America	31.6	18.1	50.2	288.2	4.2
	Middle East	44.5	51.9	3.6	72.6	2.0
	Other Asia	7.3	12.7	80.0	59.9	1.7
	Associated Overseas States	94.8	5.2	—	26.7	2.6
	Other Africa	81.8	17.5	0.7	143.8	4.6
071	*Coffee*					
	All developing countries....	27.3	10.8	61.8	1,807.7	9.3
	Latin America	21.6	10.6	67.8	1,404.1	20.6
	Middle East	12.2	8.2	79.6	41.7	1.1
	Other Asia	56.4	26.6	17.0	36.5	1.0
	Associated Overseas States	69.4	1.7	28.9	166.7	16.1
	Other Africa	30.1	20.5	49.4	153.3	4.9
072	*Cocoa*					
	All developing countries....	39.8	18.4	41.8	465.0	2.4
	Latin America	25.9	13.3	60.8	96.5	1.4
	Middle East	—	—	—	—	—
	Other Asia	37.5	12.5	50.0	0.8	—
	Associated Overseas States	74.4	2.4	23.2	82.5	8.0
	Other Africa	34.8	24.4	40.8	273.5	8.7
074	*Tea*					
	All developing countries....	3.5	77.9	18.6	414.1	2.1
	Latin America	3.7	85.2	11.1	2.7	—
	Middle East	—	—	—	—	—
	Other Asia	3.7	77.5	18.8	373.1	10.6
	Associated Overseas States	—	87.5	12.5	1.6	0.2
	Other Africa	0.5	81.9	17.5	36.5	1.2
075	*Spices*					
	All developing countries....	28.1	16.6	55.3	73.6	0.4
	Latin America	9.4	12.5	78.1	6.4	0.1
	Middle East	25.0	—	75.0	0.4	—
	Other Asia	31.0	18.9	50.1	46.5	1.3
	Associated Overseas States	24.0	1.0	75.0	9.6	0.9
	Other Africa	38.9	25.0	36.1	3.6	0.1
242, 243	*Wood*					
	All developing countries....	58.3	31.4	10.3	353.1	1.8
	Latin America	26.6	30.6	42.8	44.4	0.7
	Middle East	100.0	—	—	0.3	—
	Other Asia	42.9	45.7	11.4	74.6	2.1
	Associated Overseas States	89.8	9.6	0.7	122.4	11.8
	Other Africa	49.7	47.0	3.2	99.7	3.2
421, 422	*Vegetable oils and fats*					
	All developing countries....	53.3	26.9	19.8	335.9	1.7
	Latin America	58.7	15.8	25.5	95.0	1.4
	Middle East	59.5	40.5	—	3.7	0.1
	Other Asia	23.9	29.3	46.8	67.5	1.9
	Associated Overseas States	87.1	1.9	10.9	88.6	8.5
	Other Africa	33.7	64.6	1.7	72.4	2.3

Source: United Nations, *Commodity Trade Statistics,* Statistical Papers, Series D, part I —Imports, 1961 and Organisation for Economic Co-operation and Development, *Foreign Trade Statistical Bulletins,* series C, "Trade by Commodities".

NOTE: The f.o.b. values for Canada and United States have been adjusted by adding 10 per cent of these values to make them comparable with the c.i.f. values for EEC and EFTA.

[a] For definition, *see* table 4-1.

[b] Share of imports of the commodity listed in total imports of developed countries from the region specified. For example, the percentage 3.5 shown for Fruits, All developing countries, means that imports of fruit accounted for 3.5 per cent of the total imports of developed countries from developing countries; and the percentage 4.2 shown for Fruits, Latin America, means that imports of fruit accounted for 4.2 per cent of the total imports of developed countries from Latin America.

period, after which marketing should be at world prices.[45]

Total aid for diversification and production, amounting in all to $230 million, falls short of the assistance the associated countries would have received had the system of guaranteed prices in the French market been maintained. France has therefore promised to make up the difference between EEC aid for the above purposes and the amount the associated countries would have received in price support, estimated at about $100 million over the five-year period covered by the Convention.[46]

The financial and technical aid provided by the EEC as part of the association arrangements may well play an important role in helping forward the development efforts of the AOS, notably through the creation of a more adequate economic and social infrastructure and by promoting the improvement and diversification of production. However, in so far as such aid is used to stimulate the development of export crops enjoying preferential treatment in Community markets, the possibility of adverse effects on non-associated countries exporting to the EEC cannot be ruled out.[47]

Despite these various considerations, major changes are not to be expected in the short run, if only because of the time taken to effect increases in output, ranging up to seven years for the tree crops. Moreover, even when the changes set in motion by the Rome Treaty and the Convention of Association do come about, it may well be difficult or impossible to identify them in the midst of the many other factors that tend to bring about shifts in the pattern and composition of world trade. More rapid changes may, perhaps, occur because of enhanced opportunities for exporting commodities in processed rather than in crude form as a result of the much higher levels of the EEC common tariff on processed than on crude products. Since exports of the associated countries will be admitted duty free into EEC, these exports will enjoy a much higher margin of preference over non-associated countries in respect of processed commodities than they do on the raw products. Given a sheltered trade channel into a large market, the processing industries in AOS may obtain a substantial differential advantage, and may be assisted by capital and entrepreneurship from EEC member States which would have an added incentive to favour these countries.

Once again, however, it is important to recall that if rates of income growth in the EEC countries are reasonably high, even a falling share of the EEC market might not be inconsistent with rising absolute levels of exports for non-associated countries. One factor operating in favour of the non-associated countries is the fact that for some of the more important products, such as coffee, bananas and tobacco, it is the non-associated countries rather than the AOS that grow the varieties favoured by consumers in EEC countries. This advantage could well disappear, however, if AOS were successful in developing the favoured varieties or if consumer preferences changed.

Least satisfactory of all, of course, would be a situation in which the growth of economic activity in the EEC area slowed down while the preferential arrangements under the Convention of Association led not only to relative but to absolute displacement of imports from non-associated countries. This is the possibility that has caused greatest concern among the non-associated developing countries.

The Stockholm Convention makes no provision for the association of overseas States with EFTA, and the considerations discussed above in connexion with this type of association with EEC therefore do not apply. It is nevertheless possible in certain circumstances for the rules of origin adopted under the Convention to result in an indirect extension of the area of effective preference currently enjoyed by Commonwealth countries in the United Kingdom market, with adverse consequences for other developing countries. Although the EFTA countries have conceded that this possibility exists, it is difficult to assess fully how important trade diversion of this sort might be.[48]

[45] This may, however, prove to be difficult in some cases, notably coffee.

[46] United Nations Economic Commission for Africa, "Information Paper on Recent Developments in Western European Economic Groupings" (document E/CN.14/207), page 9.

[47] For further details on possible effects of EEC preferential trading arrangements on exports of non-associated countries, *see* the following documents: United Nations Economic Commission for Latin America, "The Achievement of Co-ordination in Latin American Trade Policy" (with EEC), Report by Consultants (document E/CN.12/632); "Recent Developments and Trends in Latin American Trade with the European Economic Community" (E/CN.12/631, 15 September 1962) and United Nations Economic Commission for Africa, "European Integration and African Trade" (E/CN.14/STC/4). *See also* the papers by Organization of American States, "The Effects of the European Economic Community on the Latin American Economies" (document 10, 28 September 1962), and "Restrictions Within the European Economic Community which Affect Coffee Imports from Latin America" (document 9, 23 May 1962).

[48] This question has been raised in GATT. *See* General Agreement on Tariffs and Trade, *Basic Instruments and Selected Documents; Ninth Supplement* (Geneva, 1961), pages 73 to 75.

Developments in western Europe's trade, 1957-1961

It is clearly too soon to attempt a full appraisal of the impact of western European integration on developing countries. The EEC transition period is still less than half-way through, and in many sectors the new policies have only begun to be put into effect, or have yet to be determined. EFTA is also a considerable distance from the realization of its objectives, and it is not yet clear what kind of *modus vivendi* will ultimately be reached between members of EEC and of EFTA. Nevertheless, a preliminary attempt may be made to examine recent experience in the light of policies and developments to date. Discussion will be limited to the impact on exports of developing countries.

Between 1957 and 1961, exports of developing countries increased in value by 8 per cent over-all. Exports to North America actually fell by some 3 per cent (partly reflecting the slackening of activity in 1961), those to EEC rose by 14 per cent, and to EFTA by 8 per cent (*see* table 4-13). Thus, in comparison with over-all export performance (and, even more, in comparison with exports to North America, the largest buyer in 1957), the EEC appears to have been a

rather buoyant market since its inception, and has become the most important of the three major markets for exports of these countries, as shown in table 4-13. EFTA just about maintained its share over this four-year period.

Table 4-13. Exports from Developing Countries[a] to North America and Western Europe,[b] 1961

Region	1957 (millions of dollars, f.o.b.)	1960 (index, 1957 = 100)	1961 (index, 1957 = 100)	Share in total exports 1957 (percentage)	Share in total exports 1961 (percentage)
World	25,440	108	108	100.0	100.0
North America	6,370	101	97	25.0	22.5
EEC	5,610	111	114	22.1	23.1
EFTA	3,950	112	108	15.5	15.5

Source: United Nations, *Monthly Bulletin of Statistics*, March 1963.

[a] For definition, *see* table 4-1.

[b] EEC and EFTA.

One important factor bearing on the expansion of EEC markets is the higher growth rates experienced there, and the resulting impact on import demand. Between 1957 and 1961, the total output of EEC countries combined rose at an average annual rate of 5 per cent, compared with 2.2 per cent in North America and 2.7 per cent for the United Kingdom.[49] While the higher growth rates experienced in EEC countries were just as characteristic of the years preceding the Rome Treaty as of those that followed, it is quite possible that the beginning of the integration process was also partly responsible and to this extent exports of developing countries may have benefited accordingly.

Trends for the major commodity groups are indicated in table 4-14, looking at the matter now from the point of view of imports into the developed countries. It will be observed that the value of major foodstuffs imported into EEC from developing countries fell quite substantially between 1957 and 1961, from $2.25 billion to $1.92 billion, while imports of agricultural raw materials increased slightly from $1.25 billion to $1.28 billion. But it is in petroleum and metals that the major increases are to be found, compensating for the drop in food imports, and accounting in addition for most of the over-all growth in imports from the developing countries. This fact seriously qualifies the favourable impression given by the trend in total imports, especially in view of the relatively small number of countries that export petroleum. At the same time, it should be noted that the drop in food imports was not restricted to EEC, but was proportionally even greater in North America and EFTA. Closer examination shows that a major factor has been adverse price trends, especially evident in the tropical beverage group. Thus, coffee unit values fell an average of about 30 per cent over the period, and prices of most other tropical foodstuffs also fell.

In view of the price declines, a clearer picture of trends in EEC import demand emerges from the data

[49] Based on data in Organisation for Economic Co-operation and Development, *General Statistical Bulletin* (Paris), November 1962.

Table 4-14. Imports from Developing Countries into North America and Western Europe,[a] 1957 and 1961

(Billions of dollars)[b]

Commodity and group	1957 North America	1957 EEC	1957 EFTA[c]	1961 North America	1961 EEC	1961 EFTA[c]
Foodstuffs	2.64	2.25	1.84	2.23	1.92	1.46
Coffee, tea, cocoa and fruit	1.82	1.09	0.80	1.44	1.01	0.73
Sugar	0.57	0.19	0.36	0.51	0.08	0.14
Oil-seeds, oils and fats	0.14	0.55	0.30	0.13	0.52	0.23
Other[d]	0.11	0.42	0.38	0.15	0.31	0.36
Agricultural raw materials	0.76	1.25	0.76	0.58	1.28	0.78
Rubber	0.38	0.26	0.23	0.24	0.24	0.21
Vegetable fibres	0.10	0.48	0.22	0.09	0.46	0.24
Wood	0.03	0.12	0.08	0.03	0.21	0.11
Other[e]	0.25	0.39	0.23	0.22	0.37	0.22
Fuels, ores and metals	2.68	2.69	1.64	2.53	3.27	1.93
Fuels	1.73	1.90	1.17	1.77	2.35	1.44
Iron and non-ferrous ores	0.56	0.43	0.25	0.53	0.37	0.19
Copper	0.21	0.29	0.20	0.10	0.43	0.28
Other metals	0.18	0.07	0.02	0.13	0.12	0.02
Total, above commodities	6.08	6.19	4.24	5.34	6.47	4.17
Total imports from developing countries	6.82	7.14	4.83	6.29	7.55	4.84

Source: United Nations, *Commodity Trade Statistics*, Statistical Papers, Series D.

[a] EEC and EFTA, excluding Switzerland.

[b] C.i.f. for EEC and EFTA, f.o.b. for North America.

[c] Excluding Switzerland.

[d] Meat, cereals, tobacco and spices.

[e] Hides, wool, crude fertilizers, animal and vegetable materials, n.e.s.

on quantities shown in table 4-15 for a few major commodities. Broadly speaking, imports from developing countries of tropical foodstuffs have increased in terms of quantity over the period 1957-1961, while those of cereals, sugar and meat have fallen; trends in agricultural raw materials have been mixed.

Alignments of EEC tariffs carried out so far can obviously have had only negligible effects on imports of industrial raw materials from third countries since duties on these commodities were already low or zero. As noted earlier, moreover, by the end of 1960 most industrial raw materials imported from third countries were no longer subject to quota restrictions.

In the case of temperate zone food products, a 25 per cent reduction in intra-EEC tariffs had taken place up to January 1961. In evaluating the effect of such a reduction on trade of third countries, it should be noted that quantitative import restrictions rather than tariffs have in the past been the main instrument used to regulate both intra-EEC trade and trade with third countries. Furthermore, the use of other devices, notably variable import levies, under the common agricultural policy did not begin until 1962, and obviously could not affect trade before that time. Under these conditions it is difficult to say exactly how much discrimination against outsiders there has been.

The impact of EEC may also be studied through an examination of trends in intra-EEC trade in relation to trade with third countries. Between 1957 and 1961, total EEC imports increased by 29 per cent; but intra-EEC imports increased by 51 per cent and imports from third countries rose only 19 per cent (table 4-16). The share of intra-EEC imports thus increased from 34 to 39 per cent. Although by 1961 the main change brought about by EEC was the reduction in internal tariffs on industrial products, while a common agricultural policy had yet to be agreed upon, it will be seen that the relative increase in intra-EEC imports was somewhat greater for primary products than for manufactures. While imports of primary products from third countries advanced only 6 per cent, intra-EEC imports increased by 25 per cent. On the other hand, a 63 per cent expansion in intra-EEC imports of manufactures was accompanied by an increase of 53 per cent from third countries.

Table 4-15. Imports into EEC of Selected Commodities from Developing Countries, 1957 and 1961

(Thousands of tons)

Commodity	*1957*	*1961*
Temperate zone products		
Cereals	3,532.5	2,485.4
Sugar	1,336.4	621.1
Meat	128.6	108.3
Tobacco, unmanufactured	54.3	74.9
Tropical products		
Cocoa	286.0	349.9
Coffee	498.1	635.0
Fruits, fresh	1,552.6	1,903.4
Oil-seeds	1,731.3	1,892.4
Agricultural raw materials		
Cotton	432.0	479.3
Hides and skins	171.2	146.8
Rubber	403.4	405.1
Wool	79.8	96.9

Source: United Nations, *Commodity Trade Statistics*, Statistical Papers, Series D.

Table 4-16. Trend in EEC Imports, 1957-1961

Item	*1957 (millions of dollars)*[a]	*1958*	*1959*	*1960*	*1961*
			(index, 1957 = 100)		
All commodities					
Total EEC imports	23,220	93	100	118	129
Intra-EEC imports	7,880	96	107	130	151
Imports from third countries	15,340	92	96	112	119
(Percentage share of intra-EEC trade in total)	(33.9)	(34.9)	(36.3)	(37.2)	(39.4)
Primary commodities[b]					
Total EEC imports	13,510	90	95	105	110
Intra-EEC imports	2,710	90	100	116	125
Imports from third countries	10,800	90	93	102	106
(Percentage share of intra-EEC trade in total)	(20.1)	(20.1)	(21.2)	(22.1)	(23.0)
Manufactures[c]					
Total EEC imports	9,510	98	107	137	159
Intra-EEC imports	5,135	98	109	136	163
Imports from third countries	4,375	98	106	139	153
(Percentage share of intra-EEC trade in total)	(54.0)	(53.9)	(54.8)	(53.5)	(55.6)

Source: United Nations, *Monthly Bulletin of Statistics*, March 1963.

[a] F.o.b.

[b] Including SITC sections 0, 1, 2, 3 and 4.

[c] Including SITC sections 5, 6, 7, and 8.

Intra-EEC trade actually declined relatively in fuels, but increased in both food and raw materials.[50] Incomparabilities in the data, owing to the transfer of the Saar from France to the Federal Republic of Germany, render difficult a detailed commodity-by-commodity breakdown of trends in intra-EEC trade.[51] It appears, none the less, that for foodstuffs the relative increase in intra-EEC trade has been greatest in meat, fruits and vegetables, and dairy produce, and that most of the expansion is reflected in imports into the Federal Republic of Germany. These trends are likely to be reinforced under the common agricultural policy recently introduced.

Any effects of EEC policies on trade in tropical products may be expected to show up as trade diversion towards associated countries, since EEC members themselves do not produce these commodities. The degree of preference enjoyed by associated countries following tariff adjustments up to May 1962 is shown in table 4-17. This situation reflects both reductions in intra-EEC tariffs, carried out in 1959 and 1960, and alignments towards the common tariff which for agricultural products did not take place until 1 January 1962.[52] Thus, the full effect of preferences reflected in the table would not have been registered in the trade figures for 1961—the last year for which adequate data are at present available.[53]

With these considerations in mind, it can be said that at least up to 1961, no diversion of EEC imports to associated countries seems to have set in. In fact, for all the major tropical products shown in table 4-18,

[50] The share of intra-EEC trade in total EEC imports for these groups was as follows:

	1957	1961
	(percentage)	
Food and beverages[a]	23.7	26.1
Raw materials[b]	12.4	17.1
Fuels[c]	29.5	28.7

Source: United Nations, *Monthly Bulletin of Statistics*, March 1963.

[a] SITC sections 0 and 1.

[b] SITC sections 2 and 4.

[c] SITC section 3.

[51] The data on which the above discussion is based were adjusted to show the Saar as a part of the Federal Republic of Germany for all the years treated, in spite of the fact that before 6 July 1959 it was a part of the customs area of France. Hence, the data are consistent enough for purposes of the discussion. For a more detailed commodity breakdown, however, comparable data are not available for the years 1957-1961.

[52] European Economic Community Commission, *The First Stage of the Common Market* (Brussels, 1963), page 18.

Table 4-17. Principal Tropical Products: Degree of Preference[a] Enjoyed by Associated Overseas States in EEC, 1962

(*Percentage*)

Commodity	Benelux	France	Germany (Federal Republic)	Italy
Bananas	6	6	6[b]	6
Coconuts, cashew nuts, etc.	1.5	1.5	1.5	1.5
Coffee, not roasted	4.8[b]	4	0	[c]
Tea	5.9	6.3	0	6.9[d]
Cocoa beans	2.7	3	2.7	2.1
Vegetable oils, crude:				
Olive oil	1.5	1.5	6.4	1.5
Palm oil	2.0	6.5	2.3	2.0
Ground-nut oil	3.5	4.0	3.5	4.0
Spices:				
Pepper, not ground	6	6	5	6
Cloves, not ground	6	6	6	6
Vanilla	4.5	4.5	4.5	15
Ground-nuts and other oil-seeds	0	0	0	0
Tropical wood, rough	0.7	1.5	0.7	2.9

Source: United Nations Economic Commission for Africa, "European Integration and African Trade" (document E/CN.14/STC/4, August 1962).

[a] Difference between *ad valorem* duty applicable to imports from third countries and that from associated countries. Where two or more tariff rates apply to items listed, simple arithmetical averages are shown.

[b] Duty free quotas from third countries allowed.

[c] A preference amounting to 10.8 lire per kilogramme applies here.

[d] Refers to one of the tariff items under this heading.

[53] For example, where tariffs in member States were previously nil or negligible (*see* table 4-2 above), no preference would apply before 1 January 1962. This concerns in particular coffee, cocoa and tropical wood in Benelux countries, and bananas and tropical wood in the Federal Republic of Germany.

Table 4-18. Imports of Selected Tropical Products into EEC, 1957 and 1961

Item and area	Imports from developing countries (millions of dollars)		Share of Associated Overseas States in imports from developing countries (percentage)		Share in EEC imports from Associated Overseas States (percentage)	
	1957	1961	1957	1961	1957	1961
All commodities						
EEC	7,138.0	7,544.4	12.2	12.1	100.0	100.0
Benelux	1,624.3	1,678.1	13.9	15.6	26.0	28.6
France	2,659.6	2,423.6	20.0	20.0	61.3	53.0
Germany (Federal Republic)	1,835.9	2,304.3	4.2	4.0	8.8	10.1
Italy	1,018.2	1,148.2	3.4	6.7	4.0	8.4
Fruits						
EEC	304.6	315.6	15.8[a]	13.2[a]	100.0	100.0
Benelux	27.5	28.2	5.8	5.3	3.3	3.6
France	195.8	164.0	19.2[b]	13.6[b]	78.1	53.5
Germany (Federal Republic)	71.8	102.8	1.3	0.1	1.9	0.2
Italy	9.5	20.6	84.2	86.4	16.7	42.7

Table 4-18 (*continued*)

Item and area	Imports from developing countries (millions of dollars)		Share of Associated Overseas States in imports from developing countries (percentage)		Share in EEC imports from Associated Overseas States (percentage)	
	1957	1961	1957	1961	1957	1961
Coffee						
EEC	579.9	493.7	23.5	23.4	100.0	100.0
Benelux	91.8	83.0	8.3	4.3	5.6	3.1
France	176.6	136.5	65.3	71.9	84.8	84.8
Germany (Federal Republic)	231.9	210.1	1.3	1.0	2.2	1.9
Italy	79.6	64.1	12.7	18.4	7.4	10.2
Cocoa						
EEC	177.5	185.2	33.7	33.2	100.0	100.0
Benelux	52.5	61.9	30.5	35.1	26.7	35.3
France	42.5	32.3	76.7	86.4	54.4	45.4
Germany (Federal Republic)	65.8	71.2	10.5	12.6	11.5	14.7
Italy	16.7	19.8	26.3	14.1	7.3	4.6
Tea						
EEC	23.8	14.3	0.4	—	100.0	—
Benelux	9.8	0.1	1.0	—	100.0	—
France	2.7	2.5	—	—	—	—
Germany (Federal Republic)	9.9	9.8	—	—	—	—
Italy	1.4	1.9	—	—	—	—
Spices						
EEC	15.5	20.7	15.5	11.7	100.0	100.0
Benelux	1.9	2.7	—	—	—	—
France	6.8	6.0	26.5	30.0	75.0	78.3
Germany (Federal Republic)	5.5	9.1	10.9	5.5	25.0	21.7
Italy	1.3	2.9	—	—	—	—
Oil-seeds						
EEC	325.9	325.7	34.9	27.7	100.0	100.0
Benelux	67.1	80.4	7.3	5.5	4.3	4.9
France	145.2	133.4	73.8	62.8	94.0	92.7
Germany (Federal Republic)	83.3	86.1	1.8	1.7	1.3	1.7
Italy	30.3	25.8	1.3	2.3	0.4	0.7
Wood						
EEC	117.4	205.7	57.7	53.4	100.0	100.0
Benelux	20.7	30.3	44.9	47.2	13.7	13.0
France	32.1	53.6	95.0	89.2	45.1	43.5
Germany (Federal Republic)	55.0	82.7	49.6	48.2	40.3	36.3
Italy	9.6	39.1	6.3	20.2	0.9	7.2
Fats and oils						
EEC	219.3	196.3	40.9	39.7	100.0	100.0
Benelux	47.7	24.5	37.7	26.9	20.1	8.5
France	87.8	84.8	64.8	64.4	63.5	70.1
Germany (Federal Republic)	40.4	61.7	28.7	18.2	12.9	14.4
Italy	43.4	25.3	7.1	21.7	3.5	7.1

Source: United Nations, *Commodity Trade Statistics,* Statistical Papers, Series D.

[a] If French territories in the Caribbean were included, these percentages would amount to 29.3 and 26.8 for 1957 and 1961, respectively.

[b] If French territories in the Caribbean were included, these percentages would amount to 40.2 and 39.8 for 1957 and 1961, respectively.

associated countries seem to have lost ground in EEC markets relative to non-associated countries.[54] This is especially evident for spices, oil-seeds and wood. It will also be observed that the pattern in 1961 remains much as it was in 1957, with France still the major EEC market for the associated countries.

[54] It should be noted, however, that the value of associated countries' trade in 1959 and subsequent years is not strictly comparable with that of previous years in terms of dollars, because of the 1958 devaluation of the franc. (*See* document E/CN.14/STC/4, page 27.)

The dismantling of intra-EFTA tariffs only began in 1960; hence, data for only a very limited period are available to show the effects of EFTA arrangements. Comparing 1959 with 1961, a small rise in intra-EFTA trade relative to trade with third countries is noticeable, but this appears in the primary product sector, and not in manufactures, where the tariff reductions apply (*see* table 4-19). The data appear to suggest little more than normal fluctuations due to random influences; in any event, there is thus far no evidence of greater intra-EFTA self-sufficiency as a result of the Stockholm Convention.

Table 4-19. Trend in EFTA Imports, 1957-1961

Item	1957 (millions of dollars)[a]	1958	1959 (index, 1957 = 100)	1960	1961
All commodities					
Total EFTA imports	17,600	96.2	104.1	120.5	124.2
Intra-EFTA imports	2,920	95.5	102.4	118.5	129.5
Imports from third countries ..	14,680	96.3	104.5	120.8	123.2
(Percentage share of intra-EFTA trade in total)	(16.6)	(16.5)	(16.3)	(16.3)	(17.3)
Primary commodities[b]					
Total EFTA imports	10,060	94.7	98.4	107.1	105.1
Intra-EFTA imports	1,155	89.2	93.1	107.4	104.8
Imports from third countries ..	8,905	95.5	99.1	107.0	105.1
(Percentage share of intra-EFTA trade in total)	(11.5)	(10.8)	(10.9)	(11.5)	(11.4)
Manufactures[c]					
Total EFTA imports	7,430	97.8	111.2	138.8	150.1
Intra-EFTA imports	1,730	99.4	109.5	126.0	146.0
Imports from third countries ..	5,700	97.4	111.7	142.6	151.3
(Percentage share of intra-EFTA trade in total	(23.3)	(23.7)	(22.9)	(21.1)	(22.6)

Source: United Nations, *Monthly Bulletin of Statistics*, March 1963.

[a] F.o.b.

[b] Including SITC sections 0, 1, 2, 3 and 4.

[c] Including SITC sections 5, 6, 7 and 8.

Conclusion

If economic expansion in western Europe is maintained at the rates which prevailed during the nineteen fifties, the volume of western Europe's imports from the rest of the world is likely to continue rising even if the share of other countries in western Europe's total trade declines as a result of integration. On the other hand, in the event of a slackening in economic activity in western Europe, the adverse impact of any substitution of domestic output for imports would become correspondingly greater. Moreover, even if the total imports of western Europe from other countries continues to advance, particular commodities and particular countries may be adversely affected by western European integration programmes, especially in the field of agriculture.

Western European integration poses three main problems for developing countries. The first of these is the problem of western European markets for their exports of primary products. The Rome Treaty provided for the establishment of a common agricultural policy, designed to enable the farm populations of the member countries to share in the economic growth of the EEC. This policy is expected to maintain and perhaps even reinforce the post-war trend towards growing agricultural self-sufficiency in the EEC area. Although agriculture is formally excluded from EFTA arrangements, agricultural agreements may be reached between the member countries; and if some form of relationship were worked out between EEC and EFTA members, agriculture would almost certainly be included within the scope of that relationship. The question that arises, therefore, is this: how can adequate provision be made for the farming communities of western Europe while continuing to offer expanding import markets for agricultural commodities, whether temperate or tropical, produced in the developing countries?

The second problem relates to western European imports of semi-finished and finished manufactures from the developing countries. The elimination of internal

trade barriers by both EEC and EFTA will favour internal trade in manufactures as against imports from the rest of the world; and because of EEC and EFTA tariff structures, the developing countries will be discouraged from undertaking even the first stages of the processing of primary commodities.

The question therefore arises as to what measures can be taken to ensure that the unification of markets for industrial products in western Europe does not take place in such a way as to prevent the developing countries from building up a rapidly growing volume of sales of semi-finished and finished manufactures to the region.

The third problem, finally, concerns the impact of the association of overseas States with the EEC on the sales of primary products and manufactures by other developing countries. Although there are no such arrangements under EFTA, the possibility of some indirect extension of Commonwealth preferences exists even there; and any association of additional overseas countries that might accompany a settlement between EEC and EFTA would involve further difficulties for some at least of the developing countries still left outside. At the same time, however, it is universally recognized that the associated countries need aid for the development and diversification of their economies. The last question, therefore, is how to reconcile the provision of adequate economic aid to the associated countries with the need to avoid disrupting the export markets of the non-associated developing countries.

Chapter 5

TRADE BETWEEN DEVELOPING COUNTRIES AND CENTRALLY PLANNED ECONOMIES

The level, pattern and rate of growth of trade

The two most striking features of trade between the centrally planned economies and the developing countries are its very low level and its rapid rate of growth. The two groups of countries, taken together, account for some four-fifths of the world's population, but for only one-third of world trade. This may be seen from the following data showing the shares of the two groups in world exports, from which it will also be noted that while the share of developing countries has been declining over the past decade, that of the centrally planned economies has been rising:

Share in world exports[a]

(Percentage)

	1950	*1955*	*1960*
Developing countries	31	26	21
Centrally planned economies	8	10	12

Source: United Nations, *Yearbook of International Trade Statistics, 1959*, vol. I (Sales No.: 60.XVII.2/Vol. I) and *Yearbook of International Trade Statistics, 1960* (Sales No.: 61.XVII.9).

[a] Excluding exports of undetermined destination.

Trade between the centrally planned economies and the developing countries is equivalent to only 2 per cent of world trade, as shown in table 5-1: both groups trade much more extensively with the developed private enterprise economies than with one another. Even after making some of the obvious allowances—such as for the fact that mainland China and India together account for almost one-half of the population of the two groups, as well as for the relatively low level of living in many of these countries—the discrepancy between the volume of trade between the two groups and the size of their population seems surprising. Equally remarkable is the fact that although these countries together produce more than two-fifths of the world's industrial output, trade between the two groups accounts for only one per cent of world trade in manufactured goods.

It is not altogether surprising, in view of the very low level of exchanges between the developing countries and the centrally planned economies, that trade between the two groups is not very diversified either in terms of countries or in terms of commodities. As regards geographic distribution, five countries accounted for 60 per cent of the exports of developing countries to eastern Europe in 1960 and for 57 per cent of exports to the Asian centrally planned economies (*see* table 5-2). Exports to the centrally planned economies accounted for only 4 per cent of the total exports of Latin America, 5 per cent of exports from Asia and 8 per cent of

Table 5-1. Share in World Exports,[a] 1960

(Percentage)

Direction of trade	*Total*	*Manufactures*[b]
World[a]	100	100
Intra-regional trade	60	66
Between developed countries[c]	46	54
Between developing countries[d]	5	2
Between centrally planned economies[e]	9	10
Inter-regional trade	40	34
Between developed and developing countries	33	28
Between developed countries and centrally planned economies	5	5
Between developing countries and centrally planned economies	2	1

Source: Bureau of General Economic Research and Policies of the United Nations Secretariat, based on data from United Nations, *Monthly Bulletin of Statistics*, March 1963.

[a] Excluding exports of undetermined destination.

[b] Including SITC sections 5, 6, 7 and 8.

[c] North America, western Europe, Australia, New Zealand, Republic of South Africa and Japan.

[d] World, less centrally planned economies and developed countries.

[e] Albania, Bulgaria, Czechoslovakia, Eastern Germany, Hungary, Poland, Romania, Soviet Union, Yugoslavia, China (mainland), Mongolia, North Korea and North Viet-Nam.

Table 5-2. Exports from Developing Countries[a] to Centrally Planned Economies, 1953-1960

(Millions of dollars, f.o.b.)

Direction of exports and exporting country	*1953*	*1956*	*1957*	*1958*	*1959*	*1960*	*Annual rate of growth, 1956-1960 (percentage)*
Exports to eastern Europe[b]	175	457	615	696	836	1,049	23
Cuba	1	17	44	15	13	115[c]	61
India	7	37	53	65	95	104	30
Indonesia	5	12	9	11	20	35[c]	31
Malaya	16	41	44	86	161	131[c]	34
United Arab Republic[d]	42	119	197	200	204	239	19
Total, above countries	71	226	347	377	493	624	29
Other developing countries	104	231	268	319	343	425	17

Table 5-2 (*continued*)

Direction of exports and exporting country	*1953*	*1956*	*1957*	*1958*	*1959*	*1960*	*Annual rate of growth, 1956-1960 (percentage)*
Exports to Asian planned economies[e]	170	155	200	210	205	270	15
Cuba	—	—	—	4	—	32	
India	3	8	8	7	16	12	11
Indonesia	—	12	26	43	53	35	31
Malaya	2	8	24	39	45	31	40
United Arab Republic[d]	10	24	42	35	34	45	17
Total, above countries	15	52	100	128	148	155	31
Other developing countries	155	103	100	82	57	115	3

Source: Bureau of General Economic Research and Policies of the United Nations Secretariat, based on data from United Nations, *Direction of International Trade*, Statistical Papers, Series T, a joint publication of the Statistical Office of the United Nations, the International Monetary Fund and the International Bank for Reconstruction and Development, *Yearbook of International Trade Statistics* and *Monthly Bulletin of Statistics*.

[a] For definition, *see* table 5-1.

[b] Albania, Bulgaria, Czechoslovakia, Eastern Germany, Poland, Romania, Soviet Union and Yugoslavia.

[c] Preliminary.

[d] Egypt.

[e] China (mainland), Mongolia, North Korea and North Viet-Nam.

exports from Africa (*see* table 5-3). The developing countries also do not figure prominently in the total imports of the eastern European countries, although their shares rise as high as 11 per cent in the case of the Soviet Union and 12 per cent in the case of Yugoslavia, as shown in table 5-3. The share of the developing countries is, however, somewhat more impressive in relation to the total imports of the centrally planned economies from the rest of the world—accounting for 28 per cent of this total in 1960.

As regards commodity composition, the exports of developing countries to centrally planned economies appear to be somewhat less diversified even than their exports to developed private enterprise economies. The share of manufactures in exports to the centrally planned economies is only 8 per cent, whereas the corresponding share in exports to the developed private enterprise economies is 13 per cent (*see* table 5-4). Exports of the developing countries are, in fact, highly

Table 5-3. Exports from Developing Countries to Centrally Planned Economies, 1960

(Percentage)

Share of centrally planned economies in total exports of developing countries		*Share of developing countries in total imports of eastern Europe[a]*	
All developing countries	5	Eastern Europe	8
Latin America	4	Bulgaria	2
Cuba	30	Czechoslovakia	10
Africa	8	Eastern Germany	4
United Arab Republic	50	Hungary	5
Asia	5	Poland	8
India	9	Romania	4
Indonesia	8	USSR	11
Malaya	8	Yugoslavia	12

Source: Bureau of General Economic Research and Policies of the United Nations Secretariat, based on data from United Nations, *Direction of International Trade*, and national sources.

[a] Data are approximate, as not all countries indicate in their statistics a full list of partner countries.

Table 5-4. Commodity Composition of Trade of Developing Countries, 1960

(Percentage of total exports or imports)

Importing or exporting region	*Exports from developing countries*		*Imports into developing countries*	
	Primary commodities[a]	*Manufactures[b]*	*Primary commodities[a]*	*Manufactures[b]*
World	86	14	35	65
Centrally planned economies	92	8	34	66
Developing countries	81	19	81	19
Developed countries	87	13	21	79

Source: Bureau of General Economic Research and Policies of the United Nations Secretariat, based on data from United Nations, *Monthly Bulletin of Statistics*, March 1963.

[a] Including SITC sections 0, 1, 2, 3 and 4.

[b] Including SITC sections 5, 6, 7 and 8.

concentrated in a few staple commodities, exemplified in table 5-5.

Although from some points of view the heavy concentration of the export trade of the developing countries in primary products is disadvantageous, and these countries would obviously prefer to be able to ship larger amounts of finished manufactures, exports of primary products to the centrally planned economies may be of special significance for both sides.

Table 5-5. Imports into Selected Centrally Planned Economies from Developing Countries, 1960

(Millions of dollars)

Commodity	*Czechoslovakia*	*Poland*	*USSR*	*Total*
All commodities	179	124	643	946
Cotton and jute	15	31	149	195
Rubber	36	4	152	192
Sugar	2	10	104	116
Coffee, cocoa, tea	10	10	66	86
Ores and metals	22	8	35	65
Hides and skins	16	14	32	62
Wool	3	8	35	46
Other	75[a]	39	70	184

Source: National sources.

[a] Because of incomplete data on commodity distribution, the residual may include imports of commodities specified in other items.

A concentration on primary commodities is typical of the export trade of developing countries, while a predominance of manufactures in exports is characteristic of the more highly developed countries. Among the centrally planned economies, however, the general shortage of primary products has resulted in a highly developed member of the group, namely the Soviet Union, being cast in the role of the principal supplier of primary commodities to the rest of the group. As will be seen from table 5-6, the Soviet Union has a large net export balance in raw materials and foodstuffs, and import balances in machinery and industrial consumer goods. Table 5-7 provides an indication of the high degree of dependency of eastern European countries on imports for their supplies of certain primary commodities. Thus, trade with the developing countries provides the centrally planned economies with a valuable supplementary source of raw materials and relieves the pressure on the Soviet Union in supplying raw materials to the other centrally planned economies of eastern Europe. Indeed, what is noteworthy about trade between the centrally planned economies and the developing countries is not so much the high proportion of primary commodities in the exports of the latter as the fact that an over-all shortage of raw materials continues to prevail in eastern Europe at a time when virtually every primary commodity is in surplus supply in the rest of the world.

Table 5-6. Trade Balance,[a] by Commodity Group, 1950 and 1960

(Millions of dollars)

Region, country and year	*Total*	*Food*	*Raw materials and fuels*	*Machinery*	*Industrial consumer goods*
Five eastern European countries[b]					
1950	39	54	—354	40	299
1960	—198	—442	—1,629	1,110	763
USSR					
1950	—82	115	—76	—101	—20
1960	—546	48	757	—538	—813
Total, above countries					
1950	—43	169	—430	—61	279
1960	—744	—394	—872	572	—50
Developing countries[c]					
1960	—825	3,440	7,700	—7,835	—4,130

Source: United Nations, *World Economic Survey, 1961* (Sales No.: 62.II.C.1) and *Monthly Bulletin of Statistics*, March 1962.

[a] Minus sign denotes net imports, and no sign denotes net exports.

[b] Bulgaria, Czechoslovakia, Eastern Germany, Hungary and Poland.

[c] Due to differences in classification, data for developing countries are not strictly comparable with those for centrally planned economies. The following SITC sections represent rough approximations: food, 0 and 1; raw materials, 2, 3, 4, 5 (and division 68); machinery, 7; non-edible consumer goods, 6 (excluding division 68) and 8.

Table 5-7. Net Trade[a] as Percentage of Apparent Consumption in Selected Commodities, 1956-1957

Commodity	*Eastern Europe*[b]	*USSR*	*Total*	*Commodity*	*Eastern Europe*[b]	*USSR*	*Total*
Tin	—85	—31	—44	Cotton[c]	—93	22	—6
Wool[c]	—61	—19	—31	Iron ore	—63	14	—3
Copper	—50	—1	—13	Aluminium	—26	16	5
Lead	—33	8	—7	Manganese ore	—44	21	7

Source: United Nations, *World Economic Survey, 1958* (Sales No.: 59.II.C.1).

[a] Minus sign denotes net imports, and no sign denotes net exports.

[b] Bulgaria, Czechoslovakia, Eastern Germany, Hungary, Poland and Romania.

[c] 1955-1957.

From the standpoint of the developing countries, on the other hand, the imports of the centrally planned economies, though small in size, have provided a valuable supplementary source of demand for primary commodities. The increase in exports of foodstuffs from the developing countries to the centrally planned economies between 1956 and 1961, as shown in table 5-8, almost offset a corresponding drop in shipments to developed countries, while in the case of raw materials other than fuels, the centrally planned economies accounted for the entire expansion in exports of developing countries recorded over this period. The bulk of the gain, it should be noted, however, went to the five countries shown in table 5-2.

Table 5-8. Exports of Primary Commodities from Developing Countries

Region	*Percentage share in total exports, 1961*			*Increase in exports, 1956-1961 (millions of dollars)*		
	Food[a]	*Raw materials*[b]	*Fuels*[c]	*Food*[a]	*Raw materials*[b]	*Fuels*[c]
World	29	27	29	—13	335	1,602
Centrally planned economies[d]	44	50	—	507	355	2
Developing countries	24	16	39	30	—20	—
Developed countries	30	29	28	—550	—	1,600

Source: United Nations, *Monthly Bulletin of Statistics*, March 1962 and March 1963.

[a] Including SITC sections 0 and 1.

[b] Including SITC sections 2 and 4.

[c] SITC section 3.

[d] Not including Yugoslavia.

Of the small share of exports of developing countries to the centrally planned economies that consists of manufactures, the two most important commodity groups are textiles and base metals, as shown in table 5-9. In this respect the composition is not altogether unlike that of exports to developed countries, although shipments of base metals are relatively much less important in exports to the centrally planned economies.

Table 5-9. Exports of Textiles and Metals from Developing Countries, 1960

(Millions of dollars)

Region	*Textiles*	*Base metals*	*Other manufactures*	*Total*
World	826	1,308	1,668	3,802
Centrally planned economies[a]	36	25	36	97
Developed countries	430	1,190	945	2,565
Developing countries	360	93	687	1,140

Source: United Nations, *Monthly Bulletin of Statistics*, April 1962 and March 1963.

[a] Not including Yugoslavia.

The import trade of the developing countries with the centrally planned economies is similar to that with the developed private enterprise economies. In 1960, 66 per cent of the imports of developing countries from the centrally planned economies consisted of manufactures, compared with 79 per cent for the developed private enterprise economies. In both cases, moreover, machinery and equipment provided a major share of the total.

Notwithstanding the very low level of existing trade between the developing countries and the centrally planned economies, and its restricted composition in terms of both countries and commodities, the importance of this trade has been growing rapidly in recent years. For example, for foodstuffs and raw materials other than fuels, the share of the centrally planned economies in the total exports of developing countries rose rapidly from 1956 to 1961, accounting for 9 per cent in the latter year as against only 3.4 per cent in 1956. The rate of increase is, of course, partly a reflection of the fact that existing trade is so very far below its potential,[1] but this in itself offers prospects for further expansion, especially if certain of the current obstacles hampering trade between the two groups are eased or removed.

The market potential offered by the centrally planned economies results principally from their high rate of growth, and particularly from the composition of that growth. Planning in these countries has given the highest priority to industrial development and has placed heavy pressure on raw material resources in the whole area. On the other hand, agricultural production has lagged, and this has, in fact, imposed a restraint upon the expansion of the centrally planned economies as a whole. At the same time, it has often been noted in the centrally planned economies that relatively high investment expenditures are required if raw material output is to be significantly expanded. If scarce supplies from within the area could be supplemented on a much larger scale than hitherto by imports from the developing countries, considerable benefits would accrue on both sides since the developing countries would gain additional markets while the centrally planned economies could allocate their investment resources for purposes that may be more advantageous from their standpoint.

In many cases, moreover, notably in the field of tropical foodstuffs, there is very great scope for the enlargement of imports by the centrally planned economies since existing per capita consumption is extremely low. In table 5-10 per capita imports of coffee and cocoa in certain of the centrally planned economies are compared with corresponding data for a number of western European countries and the United States. If the Soviet Union and the eastern European countries were

[1] The drastic reorientation of Cuba's trade is also an important contributing factor.

to double their per capita consumption of coffee and cocoa this would result in additional imports to the value of $50 million for coffee and $60 million for cocoa (in 1960 prices) together equivalent to about 10 per cent of the value of the imports of the centrally planned economies from the developing countries. This would still leave their per capita consumption of cocoa no higher than that of Italy on the average, while per capita consumption of coffee would remain substantially lower.

It will therefore be apparent that concerted efforts to solve some of the problems now impeding trade between the centrally planned economies and the developing countries could make a very considerable contribution to an improvement in export market prospects for the developing countries.

Table 5-10. Imports of Coffee and Cocoa Beans into Selected Countries, 1960

(Kilogrammes per head)

Country	*Coffee*	*Cocoa*
United States	7.3	1.7
France	4.3	1.2
Germany (Federal Republic)	3.6	2.0
Italy	2.0	0.6
Austria	1.7	1.5
Eastern Germany	1.4	0.7
Czechoslovakia	0.6	1.0
Hungary	0.3	0.4
Poland	0.1	0.4
USSR	0.1	0.3

Source: Bureau of General Economic Research and Policies of the United Nations Secretariat, based on data from United Nations, *Yearbook of International Trade Statistics, 1960* (Sales No.: 61.XVII.9) and *Statistical Yearbook, 1961* (Sales No.: 62.XVII.1), and national sources.

Problems of trade

The problems encountered in expanding the volume of trade between the centrally planned economies and the developing countries are of two broad types. One group of problems is associated directly with the fact that the countries concerned belong to different economic and social systems and therefore have different ways of organizing their economies as well as their foreign trade and payments. Other problems, however, are of a more general character, often affecting trade and payments relations between countries belonging to the same economic and social systems as well as those adhering to different systems. The following exposition will begin with a consideration of problems of the latter type, and mention will be made of the limitations of export and import capacity and the effects of bilateralism and of the lack of traditional economic ties or trading relationships between the centrally planned economies and the developing countries.

GENERAL PROBLEMS

Export and import capacity

Both centrally planned economies and developing countries have difficulty in earning sufficient foreign exchange through their exports to pay for all the imports they need. The centrally planned economies are faced with the problem of very rapid growth in import requirements attendant upon the expansion of the domestic economy, side by side with difficulties in expanding their exports. Difficulties concerning trading relations between the centrally planned economies and the private enterprise economies have been discussed elsewhere.[2] In addition, there have been major difficulties with respect to export supply, notably as regards agricultural commodities where eastern European output has been lagging; this has had the dual effect of limiting export potential and adding to import requirements. There have also been significant shortages of industrial consumer goods, and the supply of investment goods has been limited by rapidly rising domestic requirements. Under these circumstances the centrally planned economies have, for example, given lower priority to imports of tropical foodstuffs than to machinery and raw materials. Machinery has sometimes also taken precedence over raw materials; partly because of the priorities attached to investment, partly because of a desire to maintain independence of outside sources of supply for key materials and partly because of the advanced technology embodied in the imports of the latest types of plant and equipment.

In the developing countries, pressures on the balance of payments are both an incentive and an obstacle to trade with the centrally planned economies. They are an incentive in the sense that the centrally planned economies offer a much needed additional outlet for the exports of the developing countries. Even if trade has to be balanced bilaterally with the centrally planned economies, expanded trade with them can add to the total import capacity of the developing countries. Balance of payments pressures are, however, also an obstacle since, given the shortages of suitable exports in the centrally planned economies, the developing countries would like to receive payment in cash for their exports. They would also like to receive credit for their imports, but for their trading partners an expansion of credit to the developing countries has to be regarded as an alternative to additional domestic investment or consumption.

The centrally planned economies could expand their imports of both primary products and manufactures from developing countries if they were prepared to provide for a larger proportion of domestic requirements to be met through imports from them, in exchange for additional exports to them of machinery, equipment and other goods.

Additional purchases of primary commodities by the centrally planned economies might be financed out of increased exports to the developed private enterprise economies. The trade of the centrally planned economies with the sterling area provides an illustration that might perhaps apply on a broader scale; the Soviet Union and other eastern European countries, for example, are able to pay for imports of primary products from the overseas sterling area in convertible cur-

[2] *See* United Nations, "Ways and Means of Promoting Wider Trade Co-operation among States: Preliminary Report by the Secretary-General" (document E/3389, 13 June 1960).

rency because of the surplus of sterling usually earned in transactions with the United Kingdom. To make a net contribution to the export earnings of the developing countries, however, the additional exports of the centrally planned economies to the developed countries would have to be non-competitive with the exports of the developing countries themselves.

Bilateralism

The trade problems between the developing countries and the centrally planned economies are closely linked with the issue of bilateral trade and payments. The system of bilateralism has not been confined to transactions in which the centrally planned economies are involved. Most private enterprise economies employed this system for many years after the end of the Second World War. And while bilateralism has largely disappeared in the foreign trade and payments of the developed private enterprise economies, except in their relations with eastern Europe and mainland China, some of the developing countries, such as Argentina, Brazil and the United Arab Republic, continue to employ the same system.

Under conditions in which bilateral trade and payments arrangements are considered appropriate on both sides, the expansion of mutual trade depends greatly on the achievement of reciprocity. In other words, for each side the value of imports that can be financed depends on the value of exports sold; and conversely, a country can expect its exports to rise if it is prepared to buy enough from its trading partners. Bilateral payments arrangements may be a means of enforcing this kind of trade reciprocity. Trade may, of course, also be expanded through the granting of credit on exports by one of the trading partners, and in relations between the centrally planned economies and the developing countries it would be natural to look to the former as the prime source of such credits because of their greater economic potential. While long-term credits have been employed on a significant scale in financing trade between the centrally planned economies and the developing countries, the use of short-term credit seems to be much less common. Short-term credit cannot substitute for long-term credit, especially in financing large projects and the delivery of major items of equipment, but there may well be room for a considerable expansion in short-term credit facilities for use in the many miscellaneous transactions that form the bulk of international trade.

Lack of traditional ties

An important obstacle to trade between the centrally planned economies and the developing countries lies in their lack of traditional trading links with one another. The trade of mainland China and eastern Europe was traditionally oriented towards the industrially developed countries of western Europe and North America, while trade with other countries in Africa, Asia and Latin America was on the whole negligible. Thus, the present low level of trade between the centrally planned economies and the developing countries does not essentially represent a decline from the pre-war level but rather the continuation of past trends.

The lack of direct links even at the present time is reflected in the fact that a considerable proportion of trade between developing and centrally planned economies takes place indirectly through the trading firms of western European countries which act as middlemen for this purpose. For example, in 1960 the Soviet Union and Poland imported about 50 per cent and 75 per cent, respectively, of all their copper imports from western Europe; Poland obtained 20 per cent of its raw hides and 40 per cent of its oil-seeds, from the same source. While such arrangements could no doubt be expanded further, it seems likely that the lack of direct commercial connexions and financial links with producing countries constitutes a significant obstacle to trade.

PROBLEMS OF DIFFERENT ECONOMIC SYSTEMS

Planning methods

In addition to the problems of a general character reviewed above, certain other problems are the result of differences in the economic systems prevailing in the centrally planned economies and the developing countries.

From some points of view long-term planning of foreign trade may have certain advantages in the creation of stable markets for primary products. During the Second World War, for example, long-term contracts were employed as a means of ensuring that required supplies of primary products would be forthcoming in an orderly manner. Even after the war, the United Kingdom continued for some time to maintain the bulk-purchase agreements by virtue of which overseas sterling countries had undertaken to supply British needs for certain primary products. There is little doubt that the volume of trade was larger and more stable under these conditions than it would have been otherwise. In so far as the centrally planned economies are prepared to place standing orders for primary products over a period of years, they too are in a position to provide an element of stability in commodity markets commensurate with the share of their purchases in the world total.

At the same time, however, the planning process may involve certain constraints on trade. Planners are often reluctant to make adequate allowance for foreign trade in their plans, simply because foreign trade is by its very nature less amenable to the control of the planning authorities, and is therefore far less predictable than any other major component of national expenditure. Particularly within an area as vast and as rich in resources as the area encompassed by the centrally planned economies, there may be a tendency towards regional self-sufficiency. Moreover, the centrally planned economies are now moving towards closer co-ordination of their plans or even the elaboration of joint sectoral plans for the area as a whole and they are thereby attempting to ensure a form of balanced growth in which inputs and outputs would be matched within a coherent regional whole. In addition to the objectives of improving the division of labour within the region, this programme may also be motivated by the desire to reduce any risks that may be involved in hinging the realization of key elements of their long-term plans on deliveries from outside sources of supply.

Trading methods

The trading methods employed by the centrally planned economies differ in a number of important respects from the corresponding methods prevailing in the private enterprise world, whether developed or under-developed. The fundamental basis of these differences is to be found in the need to fit the foreign trade sector into the framework of planned expansion for the

economy as a whole. As noted earlier, the internal consistency of the over-all national plan requires the establishment of precise quantitative targets for imports and exports: the foreign trade targets have to be intimately interrelated with the domestic components of the plan—production, intermediate and final consumption, domestic trade, investment and so forth. Likewise, the balance of payments plan, incorporating the detailed foreign trade targets, provides a check on the feasibility of the foreign trade plan and hence on the feasibility of the national plan as a whole.

All foreign trade is organized as a state monopoly, operating through specialized state trading agencies: there are usually twenty or so of these agencies in each country. These agencies conduct their activities within the framework of long-term or annual trade agreements negotiated by the authorities with other countries, fixing quotas for imports and exports. In trading with one another, the centrally planned economies draw up agreements that involve definite commitments on each side to sell and purchase specified quantities of goods. In trade with private enterprise economies, however, the agreement quotas imply only an obligation to grant export or import licences.

As already noted, in so far as the state agencies are in a position to offer long-term contracts for such commodities they may even provide an element of stability in primary markets. On the other hand, important criticisms frequently advanced against state trading operations are that they may give an unequal advantage in dealing with smaller production and sales units in private enterprise economies and that they may expose the latter to the risk of sudden fluctuations in trade resulting from the very large volume of transactions concentrated in the hands of single agencies of the State.

The practice of state trading has also frequently been viewed as an obstacle to trade in itself. For example, the exclusive channelling of trade through state trading agencies means lack of direct access to producing enterprises. This may not be an important obstacle in selling standard primary commodities to the centrally planned economies, and it is these that account for the great bulk of the exports of the developing countries. The problem may be more serious as regards the exports of the centrally planned economies. The foreign customer deals almost entirely with the state trading agency, and may have only casual contact with the producer—contact which may nevertheless be of considerable importance where deliveries of machinery and equipment are involved. Apart from the problem of reaching agreement on design and specifications, administrative complications may result from the fact that the export price is established by the state trading agency, whereas the producer is interested exclusively in the domestic price, which may not be directly related to the sale price in foreign currency. Thus, where the customer would like to consider certain changes in design, the technical aspects have to be considered by the producer, but the resulting price adjustment must be settled by the state trading agency. This may in some circumstances lead to considerable difficulty and delay, and in some countries attempts have been made to simplify these procedures.

The role of tariffs and quotas

The quotas employed by the centrally planned economies constitute an integral part of the administration of the foreign trade component of the national plans. In a market economy quantitative restrictions on non-agricultural imports are usually applied to a list of selected commodities and are regarded as a necessary evil to be employed only in case of balance of payments difficulties. Even in market economies, however, quantitative import controls generally have to be employed as an integral part of government programmes for agricultural price support. Since in the centrally planned economies all economic activity is planned in detail, quantitative regulation is applied to trade in all commodities and with all partner countries. Quantitative regulation of foreign trade is thus usually implied by the process of central economic planning.[3]

This does not necessarily mean that there is no freedom to effect substitutions between countries or between commodities. But the degrees of freedom for such substitution may vary quite widely. For example, there is usually very little freedom in varying the imports required for the fulfilment of the investment plan: once it has been decided to build a power station of a certain size and capacity, and with various other specifications, there may be little choice left as to the types and amount of machinery to be imported.

A larger range of substitution is feasible in the case of inputs of raw materials. In fulfilling the textile plan, for example, it may be possible to choose between natural and synthetic fibres. Similarly, in the production of shoes, hides and skins, rubber and synthetic rubber may all to some extent be substitutes for one another. Finally, there may be a quite wide range of possible substitution between various types of consumer goods even where safeguards for domestic output and employment have to be maintained. In so far as such opportunities for substitution exist, it may be possible for the centrally planned economies to effect some liberalization of their quantitative controls on foreign trade through a higher level of aggregation of import targets, as appropriate.

Although quantitative controls provide the primary means of dovetailing the foreign trade sector with the domestic economy, some countries have also introduced import tariffs. It used to be the case in all centrally planned economies—and still is the case in several of them at the present time—that the adjustment of foreign trade prices to domestic prices took place in one single stage. This single stage adjustment included in one lump sum the elements equivalent in market economies to import duties (or export subsidies), excise taxes, distribution costs and trading profits. The introduction of tariffs in a number of the centrally planned economies implies the separation of a distinct element of import charges. This does not imply that the import duties are now the only or even the main instrument of price adjustment. What is rather involved is that the import duties constitute that part of the total difference between domestic and foreign trade prices that is considered negotiable with other countries. To the extent that duties may have any role in influencing the imports of the centrally planned economies, the proposal that the developed private enterprise economies should extend tariff concessions to developing countries on a unilateral basis, and without demanding reciprocal concessions, could be widened to include the centrally planned economies as potential givers of such concessions.

[3] The foreign trade régime of Yugoslavia differs from that of the other centrally planned economies in this and other important respects.

It should further be noted that Czechoslovakia, Hungary, the Soviet Union and Yugoslavia all employ two-column tariffs. In the three latter countries, tariffs applicable to commercial imports were introduced during 1961 and may to some extent have been designed to provide greater bargaining power in negotiations with the European Economic Community. It was contended that in proceeding to the establishment of a customs union, EEC countries were violating previous understandings with third countries regarding most favoured nation treatment. If the internal cuts in tariffs were not generalized, the centrally planned economies would feel free to impose the higher rates of duty on imports from the EEC countries in return. It is not entirely clear how the differential tariff exerts its impact upon the purchasing policies of the state trading agencies concerned, but it would appear that some incentive to take account of the difference in tariff rates has been introduced. Whatever may be the arguments for and against this form of retaliation to the internal tariff cutting of EEC and EFTA in western Europe, presumably such retaliation would not be considered equally justified in the case of trade groupings formed by the developing countries, where economic development is in danger of being seriously hampered through the fragmentation of markets into small units that are not viable by themselves.

While the remainder of the differential between foreign trade and domestic prices may be difficult to negotiate internationally, the impact on domestic demand may be very great—in some cases even greater than in many market economies. In fact the very low level of imports and consumption of many tropical products, noted earlier, could be regarded as due at least in part to the high domestic prices brought about by what is in effect a very high rate of excise taxation.

However, since there does not seem to be a separately identifiable excise tax levied on domestic sales of such products as cocoa and coffee, it might not be possible to negotiate an understanding in terms which would be precisely analogous to a negotiation for the reduction of excise taxes on such products in countries like the Federal Republic of Germany and Italy. Although the possibility of negotiating the margins between export and domestic prices should not be ruled out, the counterpart of reductions in excise taxes might, in the case of the centrally planned economies, be the assumption of obligations regarding a progressive increase in import quotas.

Discrimination

One issue that has frequently been raised in connexion with the operations of state trading agencies is that of discrimination. It has been held that it would be very difficult to ascertain, in any particular case, whether a state trading agency had decided upon the source of supply for imports on the basis of commercial considerations alone, or whether other factors were involved amounting to discrimination. While ordinary commercial considerations may normally constitute an important safeguard against discrimination, it is evident that the high degree of centralization of commercial decision making would make it difficult to establish whether discrimination had or had not occurred in any particular case. The discrimination charge is particularly difficult to refute where the plan distributes import targets by countries, especially since it would in any case be impossible to determine whether or not discrimination was involved without a thorough knowledge of the state trading system as applied in the centrally planned economies, and a complete examination of all relevant data and circumstances in detail.

One element of discrimination commonly employed even on commercial grounds is the application of stronger quantitative restrictions against imports payable in "scarce" currencies than against other imports, a form of discrimination which is also employed within the private enterprise world by countries experiencing balance of payments pressure. In so far as discrimination results from the scarcity of particular currencies, it is more likely to favour imports of the centrally planned economies from the developing countries than from the developed private enterprise economies. This is because the scarce currencies are normally those of the latter group of countries. There would usually be no incentive, at least on currency grounds, for the centrally planned economies to buy a particular item from the developed countries if exactly the same item were available from the developing countries at the same price.

Dumping

State monopoly of foreign trade could also be used for purposes of dumping, or for disrupting foreign markets. The principal difficulty in establishing the facts of any alleged instance of dumping lies in the system of price determination employed in the centrally planned economies. Because of the isolation of domestic prices from foreign trade prices, it becomes very difficult if not impossible for the trading partners of the centrally planned economies to determine the relationship between the latter's export prices in foreign currency and domestic costs. It appears, however, that the centrally planned economies plan their foreign trade in such a way as to ensure, so far as possible, that those goods are exported which yield the largest amount of foreign exchange per unit of domestic costs. In some cases, in fact, a lower limit is placed on this ratio, so that goods which would yield less than the prescribed minimum amount of foreign exchange per unit of domestic costs would not be produced for export. The mere fact that such calculations are made does not mean that dumping is ruled out in all circumstances, but it does mean that a basis for rational economic decision making exists.

While it would be difficult for the trading partners of the centrally planned economies to establish the existence of dumping through a comparison of foreign trade prices with domestic costs in the latter countries, some evidence is available concerning the relationship of export prices of the centrally planned economies in foreign currency to the prices of corresponding goods produced in the private enterprise economies for the world market. In a number of instances it has been noted that goods exported from the centrally planned economies have carried prices below those of comparable products exported from private enterprise economies. Such cases have generally occurred where the need for foreign currency was critical or where an eastern European country wished to break into a new market and was unable to attract any orders unless it offered a substantial price incentive. Where understandings were subsequently reached regarding a place for exports of the centrally planned economies in world markets, as for example in the cases of Soviet exports of aluminium, diamonds and tin, the centrally planned economies appeared willing to conform to the generally accepted price structure.

Trading standards

One of the problems that is implicit in the differences in trading methods between centrally planned and developing economies discussed above is that no generally recognized standards or rules exist to govern the trading relations between the two groups of countries.

Contracting Parties to the General Agreement on Tariffs and Trade have undertaken certain obligations towards one another under the Agreement. Most of the centrally planned economies and many of the developing countries, however, are not members of GATT and are therefore not subject to its rules. It appears, moreover, that certain of the situations that have arisen in trade between the centrally planned economies and the developing countries were not envisaged when the General Agreement was drawn up. Thus, for example, the provisions of article XVII of GATT regarding non-discrimination and the primacy of commercial considerations raise difficulties of interpretation in the context of the centrally planned economies—as will be evident from the preceding discussion. The result is that no generally accepted rules or procedures exist with respect to the trade arrangements negotiated between centrally planned and developing countries or regarding any other contractual obligations that they may assume vis-à-vis one another.

Conclusion

Trade between the centrally planned economies and the developing countries has risen rapidly in recent years, although it remains a relatively small proportion of the total trade of each group.

A basic factor tending to hold down the volume of trade between the centrally planned and developing countries below its potential level is the constraint imposed by the high priority attached to investment and accelerated economic growth in the centrally planned economies, leading to the assignment of a relatively low priority to imports of certain commodities from developing countries. This factor has been reinforced by a certain intra-regional preference in the planning process. Despite this, the centrally planned economies have indicated their intention of further expanding their trade with the developing countries, and this presumably implies a willingness on their part to adjust their national plans to the opportunities for larger imports from the developing countries.

Prospects for larger imports by the centrally planned economies from the developing countries must depend largely on an equivalent expansion in the flow of exports from the former countries to the latter. Additional purchases might be possible in so far as the centrally planned economies could expand their exports to western Europe and North America, but to make a net contribution to the earnings of the developing countries, such exports would have to be non-competitive with those of the developing countries themselves.

The mutual exchange of goods and services by the centrally planned and developing countries would receive additional impetus from an expansion of credit provided by the former countries. The difficulty here is that additional credit to the developing countries competes with domestic claims upon resources for investment and consumption in the centrally planned economies. However, the latter countries have already supplied substantial long-term credits to the developing countries, and there may be scope for an expansion of short-term credit facilities.

Certain institutional factors also play an important role in affecting the level of trade between the centrally planned and developing countries. Some of these factors are associated with differences in economic and social systems, but not all. In particular, bilateral payments arrangements do not seem to be an indispensable feature of the trade of the centrally planned economies: some transferability of balances within the area would probably help in enlarging the scope of trade with the developing countries. Closer and more direct commercial relations would probably also be helpful.

On the other hand, state monopoly of foreign trade and the quantitative regulation of trade within the framework of national plans are characteristic of the centrally planned economies. Existing procedures adopted in trade between the centrally planned economies and the developing countries might usefully be examined with a view to elaborating agreed rules and standards to govern the relations between the two groups. On the one hand, the present institutional arrangements involve the danger that the state monopolies may exploit their superior power and centralized decision making, creating a fear among their trading partners of unpredictable fluctuations in their purchases. On the other hand, the state monopolies also have the power to enter into long-term trade agreements providing for steadily expanding exchanges over a substantial period of years. Long-term agreements have in the past also been used among private enterprise countries as a means of guaranteeing the demand for primary commodities.

The rapid growth of the centrally planned economies could generate a considerable expansion of demand for imports of primary products from developing countries. Such demand would rise all the more if the centrally planned economies were prepared to rely on the developing countries for a larger proportion of their total supplies of raw materials, and if consumption of tropical foodstuffs were allowed to increase more rapidly.

There may also be opportunities for the export of finished manufactures, notably industrial consumer goods, from developing to centrally planned countries. Such opportunities would increase if the latter countries were in turn able to expand their own exports and were thereby able to relax the stringent system of priorities that they now apply to their import programmes. Even under existing conditions, however, it seems likely that the centrally planned economies could absorb larger quantities of manufactured imports from the developing countries.

Chapter 6

FINANCING FOR AN EXPANSION OF INTERNATIONAL TRADE

Introduction: The nature of the problem

In developing countries levels of domestic investment and hence rates of economic growth are strongly influenced by external developments which are largely beyond the control of domestic governments. Although most of these countries possess some manufacturing industries, the bulk of capital goods has to be imported. They are thus heavily dependent on foreign exchange receipts to procure the equipment required for the execution of investment projects. Moreover, in view of low per capita incomes, domestic saving in most countries tends to be inadequate to finance the levels of investment necessary for rapid and sustained economic growth. Foreign capital is therefore also needed as a source of investment funds.

In view of the unfavourable experience of the developing countries with respect to their export receipts during the past decade, sustained economic progress has depended to a large extent on the availability of an adequate volume of external capital. Part of the external resources has come in the form of private foreign capital.

The less developed countries have, however, also turned increasingly to official agencies in the developed countries and to multilateral institutions for assistance in the financing of imports of capital equipment and other commodities essential for development. In response to this demand, governments in the developed private enterprise countries have allocated a growing volume of public funds for bilateral economic assistance and for the expansion of the resources of multilateral agencies. Since the mid-nineteen fifties, the centrally planned countries have likewise expanded the flow of bilateral credits for development projects in the under-developed countries.

Importance of medium-term and long-term financing for trade of developing countries

THE TOTAL FLOW OF LONG-TERM FUNDS

The net flow of long-term[1] private and official capital and official donations from developed private enterprise countries to the developing countries has averaged over $6 billion a year in 1960-1961.[2] As table 6-1 shows, the annual flow has more than doubled since 1951-1955 and has exceeded the average for 1956-1959 by $1.4 billion. In 1960-1961, about one-fifth of the total net flow has consisted of private capital, while official loans have accounted for roughly one-third

[1] Throughout this study, unless otherwise stated, the phrase "long-term" refers to loans and investments without maturity or maturing after one year. This includes transactions for periods of one to five years, which are referred to as "medium-term" in some publications.

[2] Totals exclude French private investments in franc area countries which have been estimated at $300-$350 million a year during the period 1956-1961.

Table 6-1. Net Bilateral Flow of Long-term Capital[a] and Official Donations from Developed Private Enterprise Countries to Developing Countries, 1951-1955 to 1960-1961, Annual Averages

(Billions of dollars)

Item	*1951-1955*	*1956-1959*	*1960-1961*	*Item*	*1951-1955*	*1956-1959*	*1960-1961*
Total[b]	—2.9	—4.8	—6.1	Official capital[e]	—0.9	—1.3	—2.0
Private capital[c]	—0.8	—1.3	—1.3	Total official	—2.2	—3.5	—4.7
Recorded reinvested earnings of affiliates of foreign enterprises[d]	—0.4	—0.5	—0.5	Technical assistance expenditures	—0.1	—0.2	—0.4
Official donations	—1.3	—2.2	—2.7	United States agricultural surplus sales	—	—0.7	—0.9

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 Countries in Course of Economic Development* (Paris) (various issues).

[a] Loans and investments without maturity, or maturing after one year. Minus sign indicates net outflow of funds.

[b] 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; including the unutilized portion of local balances derived from sales of United States agricultural surpluses.

[c] Excluding loans and credits extended by private banking institutions.

[d] Based primarily on data from United Kingdom and United States; most other countries do not include reinvested earnings in private capital flows.

[e] Including loans and credits extended by private banks; including the unutilized portion of local currency balances derived from sales of United States agricultural surpluses.

and official donations for over two-fifths. The composition of the flow has changed in some respect since the early nineteen fifties, when private capital was more prominent in transactions with the less developed countries and donations accounted for a larger proportion of assistance given by official agencies than in the more recent period.

In 1960-1961, as in the past, the United States has been by far the largest source of capital and donations followed by France and the United Kingdom. A significant proportion has been contributed by the Federal Republic of Germany and Japan which have relatively recently entered the field of developmental assistance and capital exports to developing countries (table 6-2).

Table 6-2. Distribution of Net Bilateral Flow of Long-term Capital and Official Donations from Developed Private Enterprise Countries to Developing Countries, by Source, Average for 1960-1961

Country	*Percentage*
United States	58.8
France	18.2
United Kingdom	10.8
Germany (Federal Republic)	4.4
Japan	3.9
All other countries	3.8
TOTAL	100.0

Source: See table 6-1.

While the flow of foreign capital and donations has consisted predominantly of types of transactions which have contributed to the financing of imports of under-developed countries, it has included some that cannot be considered as potential or actual import finance. Among these are the reinvested earnings of subsidiaries of foreign companies which have not directly given rise to an inflow of foreign exchange,[3] and technical assistance expenditures which have represented predominantly foreign financing of services rendered to the recipient countries. Excluding these items, the annual net bilateral flow has amounted to over $5.2 billion in 1960-1961, and its increase since 1951-1955 has been of the order of $2.9 billion.

In addition to the flow of funds from the developed countries, the under-developed countries have also obtained throughout the nineteen fifties and in 1960 and 1961 financial assistance in the form of long-term loans extended by multilateral lending agencies, chiefly by the International Bank for Reconstruction and Development (IBRD). Although such loan disbursements have been small in relation to funds supplied under bilateral programmes, multilateral loans will contribute a growing proportion of developmental capital in the coming years as a result of the recent establishment of several new agencies, to which reference is made in a later section of this chapter.

Commitments of economic assistance to the developing countries by the centrally planned economies have been equivalent to around $1 billion a year since 1959. The assistance programmes of these countries have been substantially expanded since their inception in the mid-nineteen fifties (table 6-3). The bulk of assistance has been in the form of low-interest credits for periods of eight to twelve years covering shipments of equipment and materials required for specific investment projects. Data on disbursements are not available, but they can be assumed to have increased substantially in recent years in view of the sharp rise in commitments since 1958.

THE PROBLEM OF SHORT-TERM FINANCE

Sustained economic expansion and the growth of imports have been hampered not only by unfavourable price trends and the inadequate long-term growth of exports, but also by substantial short-term fluctuations in export receipts. The disruptive effect on imports of such fluctuations has hindered the execution of investment programmes, which must, of necessity, involve planning of expenditures for a number of years in advance.

Proposals for mitigating the impact of price and volume instability on export receipts are reviewed in chapter 2. The present comment is confined to a brief examination of the financial problems which have arisen in part from the instability of exports, and of the assistance given to under-developed countries in order to alleviate such difficulties.

Short-term trade credits are essential to the smooth flow of international trade and payments, and the under-developed countries have availed themselves of credit facilities extended by foreign suppliers and banks. The volume of outstanding short-term liabilities at any one time has therefore been substantial. According to statistics compiled by the International Monetary Fund (IMF) which cover forty under-developed countries,[4] the outstanding short-term liabilities[5] of central and commercial banks and private businesses amounted to $4.4 billion at the end of 1960. This was equivalent to over one-third of the official gold and foreign exchange reserves of the countries concerned. If one considers

Table 6-3. Centrally Planned Economies: Commitments of Bilateral Economic Assistance to Developing Countries, by Source

Item	*Cumulative total up to 1958*	*Cumulative total 1959-1961*
Total (billions of dollars)[a]	1.4	3.2
Distribution by source (percentage of total):		
USSR	75	59
Czechoslovakia	10	12
China (mainland)	8	9
Poland	3	5
Eastern Germany	2	4
Other	2	11

Source: United Nations, "International Flow of Long-term Capital and Official Donations, 1959-1961" (document A/5195).

[a] National currencies converted into dollars at official exchange rates.

[3] While the exclusion of reinvested earnings seems justified in the present context, it should be noted that their transfer to the parent company in the event that they had not been reinvested would have entailed an outflow of foreign exchange. Viewed in this way, their reinvestment has enhanced the import capacity of the country in which it has taken place.

[4] Data communicated by the IMF include all the major independent under-developed countries except Cuba, Jordan, Lebanon and Saudi Arabia and the countries which were formerly French and Belgian dependencies.

[5] Excluding short-term liabilities arising from subscription to international institutions, from drawings from the IMF, and from purchases of United States surplus agricultural commodities against payment in local currencies.

that in most countries reserves cover less than one-half of annual imports, it is clear that short-term foreign indebtedness could seriously impair the international payments position of the developing countries during periods of declining exports.

In fact, the settlement by these countries of short-term external debts has frequently lagged and arrears have at times assumed major proportions. Such arrears have inevitably reduced the ability of the debtor countries to obtain long-term loans essential for development projects. While the accumulation of short-term debt has resulted in part from circumstances beyond the control of the borrowers, notably from fluctuations in exports, domestic policies have frequently aggravated the problem. In view of the inflationary situation which has prevailed in many developing countries during the past decade, and of efforts to accelerate development, the pressure of import demand has been considerable. In these circumstances short-term financing of imports has frequently been resorted to more extensively than the current or prospective foreign exchange position would have warranted. This tendency has sometimes been encouraged by suppliers anxious to find export outlets for their products.

In order to prevent a major disruption of the flow of imports, and to restore their credit standing, the developing countries have frequently turned to official agencies in the major developed countries for assistance in the refinancing or consolidation of short-term debts. Such operations have averaged $300 million a year in 1956-1959 and funds committed for this purpose in 1961 appear to have been substantially greater.[6] Some 10 to 15 per cent of total economic assistance given by the Federal Republic of Germany has taken this form, and consolidation credits have also accounted for a substantial proportion of assistance extended by Italy and Japan during the latter part of the nineteen fifties.

[6] Organisation for Economic Co-operation and Development, *The Flow of Financial Resources to Developing Countries in 1961* (Paris, 1962).

While short-term credits and subsequent refinancing operations have helped to maintain the flow of imports of less developed countries, this process has not been conducive to the most efficient use of the relatively limited resources available for economic assistance. Such emergency operations have to some extent interfered with a rational planning of the use of assistance funds and, in some instances, they may have involved postponement of assistance for essential projects in other countries.

The problem of temporary balance of payments difficulties has been to some extent alleviated through increased use of the resources of the IMF. Policies with respect to conditions for the use of drawing rights by members of the IMF have been liberalized in the course of the nineteen fifties and gross annual drawings by developing countries have amounted to over $500 million in 1960-1961. Funds drawn are generally repayable when the specific difficulties which have occasioned the request for IMF assistance have been overcome, but not later than within three to five years of the drawing. The primary purpose of IMF assistance is monetary and exchange stabilization, and borrowers are required to take appropriate measures to secure domestic stability. The amount of assistance available to any one member country is related to its quota, that is, by its subscription to the IMF. In 1959 quotas were raised and lending facilities were correspondingly increased. In a report[7] presented to the Commission on International Commodity Trade at its eleventh session, the IMF has outlined a new course of action in the field of compensatory financing of export fluctuations. This programme substantially widens the scope for IMF assistance to the developing countries.

While IMF borrowing has differed in character and intent from developmental assistance, it has made a contribution to an orderly expansion of the imports of developing countries by mitigating the impact of temporary balance of payments difficulties on their foreign exchange reserves.

[7] International Monetary Fund, *Compensatory Financing of Export Fluctuations* (Washington, D.C.), February 1963.

Co-ordination of trade and aid policies

DEVELOPMENT ASSISTANCE AND THE NEED FOR TRADE EXPANSION

Up to the mid-nineteen fifties there had been a widespread expectation that the post-1951 decline of commodity prices would be reversed, and that the future trend of the terms of trade of the developing countries would be upward. As this expectation has not been realized, the problem of securing an expanding market for the export products of these countries through a liberalization of commercial policies in the developed countries has come to the forefront of discussion. Review of commercial policies has also been urged on the grounds that the progress of industrialization would enable a growing number of less developed countries to export manufactures, for which outlets were inadequate under the existing commercial policies of the major industrial nations. Questions of commercial policy are examined in chapters 2 and 3. The relevant question in the present context concerns the role of capital assistance in financing the trade and development needs of the developing countries.

During the past decade the developed countries have responded to the difficulties which have arisen in underdeveloped countries as a result of the inadequate growth of export receipts chiefly by accelerating the flow of capital and official donations. But a significant proportion of this flow has merely served to restore to the recipient countries external purchasing power which they had lost through the deterioration of their terms of trade. Unless trade and aid policies are brought into harmony, there is a real danger that economic growth may slow down despite a continuing expansion of capital assistance.

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,[8] the data shown in

[8] In view of wide fluctuations of export prices of developing countries, the magnitude of the "loss" will vary according to the base period with respect to which the loss is measured.

(footnote continued on following page)

table 6-4 do provide a conventional measurement of the effect of price changes taken by themselves on the import capacity of the developing countries. Total export proceeds for the entire period 1951-1961, expressed in terms of the external purchasing power which they would have possessed had export and import prices not departed from their 1950 level, would have been $15 billion larger than actual export receipts for the eleven-year period. In other words, the deterioration of the terms of trade taken by itself, has involved a loss in claims over external resources of the order of $15 billion. This loss was equivalent to about one-third of the total

Table 6-4. Estimated Loss of External Purchasing Power Resulting from Changes in Terms of Trade of Developing Countries in Relation to Net Inflow of Long-term Funds, 1951-1961

(Billions of dollars; percentage)

Item	*Cumulative total, 1951-1961*
1. Actual export receipts of developing countries	294.7
2. Purchasing power of export receipts in terms of 1950 export and import prices	309.6
3. Difference resulting from changes in export and import prices (2 — 1)	14.9
4. Estimated net inflow of long-term capital and official donations[a]	43.8
(*a*) Bilateral[a]	41.8
(*b*) Official donations	19.0
(*c*) Official loans	13.7
(*d*) Multilateral loans (net)[b]	2.0
5. Difference in external purchasing power resulting from changes in export and import prices as percentage of:	
Total net inflow of long-term capital and official donations (4)	34
Net inflow of official long-term funds (4.*b* + 4.*c* + 4.*d*)	43
Net inflow of official donations (4.*b*)	78

Source: See table 6-1; and Statistical Office of the United Nations.

[a] Total flow excludes reinvested earnings of affiliates of foreign enterprises and technical assistance expenditures; estimates of French private investment in franc area countries are included.

[b] Net loan disbursements by International Bank for Reconstruction and Development and International Finance Corporation.

receipts of long-term capital and official donations of developing countries,[9] or over two-fifths of receipts of long-term official funds, as table 6-4 shows. The deterioration of 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 had prevailed during the commodity price boom of 1951.[10]

A substantial proportion of assistance has thus been in fact, if not formally, in the nature of an offset to losses suffered from the deterioration in terms of trade. But this "compensation" has not been without cost: it has contributed to the rise in the external debt of the less developed countries, and in debt service payments, which have burdened their external balances.

In 1960-1961, interest and dividend payments absorbed over 13 per cent of the export receipts of the major developing countries, as the following figures indicate:

Interest and dividend payments as a percentage of receipts from merchandise exports[a]

1951-1955	10.4
1956-1959	13.1
1960-1961	13.3

Source: See table 6-1.

[a] Based on balance of payments statistics for forty-two countries.

The burden of such income payments increased especially during the nineteen fifties when the developing countries had received a large amount of direct investment capital, and the bulk of official loans had carried interest at market rates prevailing in the lending countries. The import capacity of the under-developed countries has thus not only been eroded by the deterioration of their terms of trade but it has also been increasingly burdened by debt service payments. A more vigorous expansion of exports would permit both a more effective utilization of foreign capital and the servicing of a growing external debt without increasing further the pressure on external balances.

While the need for an enlargement of export markets is pressing, it must nevertheless be added that the pursuit of the goal of export expansion cannot be viewed as permitting full replacement of capital assistance, at least in the near future. An increase in exports is only a partial substitute for an inflow of foreign capital. An expansion of exports will raise foreign exchange receipts and hence the ability of the exporting countries to finance a larger volume of imports. But, except to the extent that the rise in export receipts results from increased export prices, it involves a transfer of more real resources. By contrast, a corresponding inflow of foreign capital represents a net supplement to real resources produced at home, which can be channelled into domestic investment. Since the need of the under-developed countries is not only for import finance, but also for foreign saving to raise levels of domestic investment, foreign capital has a function that cannot be fully replaced, at least in the short run, by increased exports, and it will be needed by under-developed countries for a long time if the gap between their own per capita income and that of developed countries is eventually to be closed.

(footnote continued from previous page)
The choice of a base period inevitably involves an arbitrary decision regarding what is 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, and on production costs in the importing industrial countries, which in turn affect the prices of manufactures imported by the developing countries.

[9] Excluding re-invested earnings of foreign affiliates and technical assistance expenditures.

[10] 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 two-thirds of the total inflow of long-term funds, or 90 per cent of receipts of official donations and loans.

THE CONTRIBUTION OF ASSISTANCE IN MEETING THE TRADE NEEDS OF DEVELOPING COUNTRIES

Contribution to the expansion of imports

The primary purpose of foreign capital assistance has been the financing of imports of developing countries and especially of their imports of capital equipment. By 1960-1961, the flow of long-term funds from the developed private enterprise countries and from multilateral agencies was equivalent to about one-sixth of the total imports of the less developed countries, and its increase from 1951-1955 to 1960-1961 was equal to over one-third of the expansion of their imports during that period (table 6-5).

Although some part of this flow has not been linked with imports, the bulk of it has, in fact, represented an addition to the recipient's import capacity.[11]

Assistance directly related to imports has included transfers of United States agricultural surpluses for sale against local currencies. Proceeds from such sales have been used or earmarked by the United States Government primarily for development loans and donations to governments or enterprises in the importing countries. Such transactions were initiated in the fiscal year 1954/55 and by 1960/61 they amounted to around $900 million a year. While the transfer of United States agricultural surpluses has made a significant contribution to consumption in assisted countries, its stated purpose has been to supplement supplies rather than to replace normal commercial imports. To that extent this type of assistance has not contributed to the financing of the recipients' regular import requirements. If these transactions are subtracted from both the import and capital flow data shown in table 6-5, the rise in assistance from 1951-1955 to 1960-1961 is equivalent to somewhat less than 30 per cent of that of imports.

Assistance in the financing of exports

Exports of primary commodities from underdeveloped countries are normally financed on a short-term basis, through foreign and domestic banks. But, with the progress of industrialization, a number of countries have begun to export some light manufactures, and in a few cases also intermediate and finished producer goods and some durable consumer goods. Exports of manufactures, and in particular of durable goods, have created a need for longer-term financing facilities in under-developed countries which will become more pressing as industrial output expands.

While the demand for longer-term credits for the financing of exports of durable goods has thus far been relatively small, several governments have established special credit facilities in connexion with export promotion schemes, and in anticipation of increasing demands for such facilities.

The chief difficulty with respect to long-term export financing operations in developing countries is their potential inflationary effect on the economy. In view of the scarcity of domestic capital even in the more industrialized developing countries, the scope for expanding the flow of such credits is relatively limited. For that reason a number of countries have explored the possibility of obtaining external assistance for the establishment of domestic or regional export credit institutions. In view of their relatively advanced stage of development and their plans for regional integration, the Latin American countries, in particular, have considered the question of regional machinery for the financing of exports of manufactures and especially of capital goods produced within the region.

The problem of export financing was discussed at the ninth session of the Economic Commission for Latin America in 1961, which passed a resolution (207 (IX)) recommending to the Governments members of the Commission that "... they instruct their representatives to international financial agencies to request these bodies to study the problem of medium- and long-term credit for the purpose of financing the sale of capital goods

[11] According to an estimate communicated by the Organisation for Economic Co-operation and Development (OECD), well over half of the official funds committed or disbursed by the developed countries for capital assistance to developing countries in 1961 has consisted of loans and donations related to specific imports (though not necessarily tied to purchases in the donor country) and over one-fifth has represented transfers of United States agricultural surpluses. One-sixth has been in the form of foreign exchange loans and donations not specifically linked with imports, while the balance has been accounted for by debt consolidation and refinancing credits.

Table 6-5. Contribution of the Net Bilateral[a] and Multilateral Flow of Long-term Capital and Official Donations to Foreign Exchange Receipts and Imports of Developing Countries, 1951-1955 to 1960-1961, Annual Averages

(Billions of dollars; percentage)

Item	*1951-1955*	*1956-1959*	*1960-1961*	*Change, 1951-1955 to 1960-1961*
Exports of developing countries	24.5	27.8	30.5	6.0
Imports of developing countries	26.6	31.3	34.6	8.0
Net inflow of long-term funds	2.5	4.3	5.4	2.9
Total bilateral[b]	2.4	4.1	5.2	2.8
Multilateral loans	0.1	0.2	0.2	0.1
Total net inflow of long-term funds as a percentage of:				
Total foreign exchange receipts[c]	9	13	15	33
Imports	9	14	16	36

Source: See table 6-4.

[a] Excluding flow from centrally planned countries for which no data are available.

[b] Excluding recorded reinvested earnings of affiliates of foreign enterprises and official technical assistance expenditures.

[c] Export proceeds plus net flow of long-term capital and official donations from the sources indicated.

produced in Latin America, and the ways in which they might help to supplement the activities of national credit institutions in that field . . .".

The Latin American Free-trade Association (LAFTA) has also been concerned with the problem of export financing. A proposal for the establishment of a fund through contributions from the Latin American countries as well as the United States and several western European countries has received strong support from the members of LAFTA at the First Conference of the Contracting Parties in 1961.

The Inter-American Development Bank (IDB) has recently prepared an expert report on the financing of exports in Latin America. This study includes proposals for a regional system of export credit, financed in part from resources available for the programme of the Alliance for Progress.

MAJOR ISSUES IN ASSISTANCE POLICY

The increasing demand for long-term financial assistance of the past few years and the growing acceptance by the developed countries of development aid as an international responsibility have raised a number of policy issues. These issues have related in the main to financial terms and other conditions attaching to assistance, the methods and purposes of aid and the need for increased co-ordination of national and multilateral aid programmes.

Terms and conditions of bilateral assistance

The terms on which contributions have been made available by donor countries have varied significantly. Such variations have reflected partly the purpose for which assistance has been given, partly established practices in the individual donor countries, as well as differences in their economic and financial capacity. A large part of assistance given by France, the United Kingdom and the United States has been in the form of outright donations. The predominance of this form of assistance in the first two countries has resulted from their special relationship with dependencies or former dependencies and the practice of subsidizing current and public investment expenditures of local administrations. The large share of donations in the United States assistance programme has been chiefly related to support extended under the mutual security programme, and grant-aid under the agriculture surplus programme. The Federal Republic of Germany and Japan, on the other hand, have placed the main emphasis on loans, as their assistance activities have developed largely out of export financing operations.

In the recent past United States assistance policy has to some extent shifted away from donations, and the United Kingdom has likewise given greater weight to official lending. While placing increased emphasis on loans the United States Government has endeavoured to reduce the burden of borrowing imposed on the recipients. For this purpose it has developed a new type of "soft" loan, at first in the form of dollar loans repayable in local currencies, which have recently been superseded by loans of very long duration at nominal interest, but repayable in dollars. Besides such "soft" loans issued by the Agency for International Development (AID), loans at commercial rates have continued to be made by the Export-Import Bank. Outside the United States, only France has extended loans on terms similar to the United States "soft" loans. Most of the development loans extended by the United Kingdom have carried interest at market rates, while the Federal Republic of Germany, Italy and Japan have charged interest somewhat below commercial rates. The distribution of new loans extended in 1961 according to interest rates is shown in table 6-6.

The "soft-loan" policy of the United States Government has been criticized by other lending countries on various grounds. One argument against it has been that it would tend to distort the allocation of resources in the borrowing countries and result in the uneconomic use of capital. The justification for this argument has to some extent been removed by the recent introduction, on an experimental basis, of arrangements whereby

Table 6-6. Distribution of Official Bilateral Loan Commitments in 1961 According to Interest Rates and Maturities

(*Percentage*)

Item	*France*	*Germany (Federal Republic)*	*Italy*	*Japan*	*United Kingdom*	*United States*	*All OECD lending countries*
Interest rates							
0 per cent to under 3 per cent	49	—	—	—	5	26	18
3 per cent to under 5 per cent	21	38	22	1	2	4	10
5 per cent or more	30	62	78	99	93	70	72
TOTAL LOANS	100	100	100	100	100	100	100
Maturities							
Over 1 to 5 years	8	20	78	12	8	4	12
Over 5 to 10 years	12	15	22	24	9	18	18
Over 10 to under 20 years	9	39	—	64	3	44	36
20 years to under 30 years	44	26	—	—	79	6	18
30 years or more	27	—	—	—	2	27	16
TOTAL LOANS	100	100	100	100	100	100	100

Source: Organisation for Economic Co-operation and Development, *The Flow of Financial Resources to Developing Countries in 1961* (Paris).

loans are extended to governments on "soft" terms for re-lending to productive enterprises on terms normally applied in similar domestic transactions.

While other countries may not be able to match United States terms—the more limited financial resources of Governments in western Europe and Japan have obliged them to finance part of their lending operations by borrowing in the domestic capital market—some reduction in rates could be effected, if necessary through budgetary subsidies.

The new United States lending policy has entailed a substantial lengthening of grace and repayment periods for United States loans. Other donor countries have also endeavoured to ease the burden of loan amortization on the balance of payments of the borrowing countries by granting longer grace periods and in some cases by extending loans with longer maturities. Thus by 1961, one-third of new bilateral loans granted involved amortization over periods of twenty years or more, as table 6-6 indicates.

While financial terms of official loans have been eased, provisions regarding procurement have become more restrictive. This has notably been true of a large part of United States assistance which had previously not been tied to procurement in the United States. Before 1959 loans and cash donations granted by the United States International Co-operation Agency (ICA) had been available for purchases from sources outside the United States, while loan disbursements by the Export-Import Bank have almost always been tied to United States procurement. In consequence of the large and persistent imbalance in the United States external transactions and of the drain of United States reserves, restrictions on foreign procurement under ICA loans and grants were introduced in 1959 and have been tightened subsequently to the point where procurement has become largely confined to sources in the United States and in less developed countries. The effect which this shift has had on procurement directly linked with United States assistance is indicated in the following table:

ICA/AID-financed commodity expenditures: distribution by source of supply

(Percentage)

Fiscal year	*United States*	*Nineteen industrialized countries*	*Less developed countries*
1958/59	47	43	10
1959/60	41	49	10
1960/61	44	47	9
1961/62	64	17	19

Source: Agency for International Development, Washington, D.C.

While the latest published data on expenditures show procurement outside the United States to have amounted to one-third of total procurement under AID assistance as recently as 1961/62, it was expected that purchases in the United States would rise to four-fifths or more in the fiscal year 1962/63, when deliveries under earlier contracts with non-United States suppliers will have been completed. In addition to restricting the use of loans and donations which were directly related to imports, the United States Government has also limited the use of assistance given in cash, by requiring recipients to set aside a proportion of such receipts for purchases in the United States.

Policies with respect to procurement under assistance extended by western European countries and Japan have varied. The two major sources of economic assistance in western Europe, France and the United Kingdom, have concentrated their assistance in countries within their own monetary areas, with which they had close political and economic ties and a co-ordinated exchange control system. In consequence, recipients of loans and donations have tended to purchase the bulk of their requirements in the donor country even though no formal restrictions may have been placed on the use of funds. In so far as loans or donations had been extended for general purposes they have been available for imports from all sources. The United Kingdom has, however, recently tightened its control over the use of general assistance extended to overseas dependencies.

Loans extended by Japan have generally been tied to procurement in that country. The Federal Republic of Germany, on the other hand, has granted several foreign exchange loans for general purposes in addition to export credits covering purchases of German equipment and materials. Untied assistance has obvious advantages for the borrower, and it is clearly more conducive to the most effective utilization of the limited funds available for this purpose.

However, donor countries must inevitably take their own economic problems into consideration when public funds are disbursed. The pressure to do so becomes especially strong when a country's external payments position deteriorates. In these circumstances restrictions on the use of assistance funds are difficult to avoid and such restrictions are clearly preferable to reductions in assistance disbursements. The advantages to the recipients of untied assistance have generally been recognized by donor countries, and aid in this form has remained the declared goal of policy.

Co-ordination and multilateralization of assistance

While all donor countries are in principle agreed that multilateral agencies must play an important role in meeting the external financial requirements for economic development, views regarding the magnitude of the multilateral contribution to the total flow of assistance have varied. Countries without commitments to specific groups of under-developed countries, as for instance the Federal Republic of Germany and the Scandinavian countries, have in the past channelled a relatively large proportion of assistance through multilateral agencies, while France and the United Kingdom as well as the United States have placed the main emphasis on bilateral programmes. The developing countries have consistently expressed a preference for multilateral programmes and have pressed for their expansion.

As a growing number of colonies attained independence, demands for multilateral assistance increased, and at the same time an easing of the financial responsibilities of former colonial powers came within sight. There has consequently been some shift in emphasis in favour of multilateral assistance in these donor countries. This development has been accelerated by the economic integration movement in western Europe and by the establishment of closer regional ties in various underdeveloped areas, notably in Latin America under the Alliance for Progress.

The most striking evidence of the increased emphasis on multilateral assistance has been the establishment

of several new agencies within the past few years. As recently as 1959 the IBRD and its subsidiary, the International Finance Corporation (ICF), had been the only fully operative multilateral sources of long-term finance, which had made gross loan disbursements of some $350 million. By 1961, six agencies and funds were in operation, and had made commitments totalling over $1 billion.

With the rise in numbers and the increase in resources available for multilateral assistance, lending policies have become more diversified. The IBRD has adhered to strictly commercial practices in its lending operations. This procedure has been provided for in its statutes and it has been necessitated by its own position as a borrower in the major capital markets. It has consequently concentrated its operations on "marketable" loans at interest rates based on its own borrowing cost. This left unsatisfied a growing volume of demand for loans on more favourable terms for the financing of non-remunerative projects. A need for low-cost loans also arose from the increasingly difficult balance of payments position of many under-developed countries. To meet this need the IBRD set up in 1960 a "soft-loan" subsidiary, the International Development Association (IDA), which makes loans on terms similar to those of the United States AID, that is, at a nominal charge of three-quarters of one per cent on amounts actually disbursed, with a grace period of ten years and with repayment spread over forty years. A new source for the financing of infrastructure projects has also been opened up through the establishment by the members of the European Economic Community (EEC) of the European Development Fund (EDF) which gives outright donations for this purpose to associated overseas countries, chiefly former French and Belgian dependencies in Africa.

Other agencies which have recently begun operations have included the IDB, set up under the auspices of the Organization of American States (OAS) with United States and Latin American participation, and the United Nations Special Fund established by the United Nations General Assembly for financing of pre-investment projects.

An important advantage of multilateral agencies from the point of view of borrowers has been the absence of restrictions on procurement. In fact the agencies have insisted on international bidding for contracts and have given every assistance to borrowers in obtaining equipment and supplies best suited to their needs and at the lowest cost. This advantage has, of course, depended on the ability of the subscribers of capital to make their contribution in convertible currencies. Contributions to the IDA and IDB from under-developed countries have been partly made in local currencies. Local currency contributions to IDB may be utilized only for loans covering the local costs of projects financed by it or, in some cases, for purchases of local products by third countries which received IDB loans.

In addition to increasing the number and resources of multilateral agencies, the major donor countries have also engaged in joint financing operations under so-called consortia. Under these *ad hoc* arrangements potential donors and the IBRD join individual recipient countries for consultation to determine the latters' needs and priorities and the assistance available from the various contributors. The terms of the assistance to be given are, however, negotiated bilaterally between individual contributors and the recipient.

In view of the wide variations in financial terms and other conditions relating to assistance under bilateral programmes and their overlapping activities, the need for a more comprehensive co-ordination of national assistance programmes has been felt by both recipients and donors. However, thus far, efforts in that direction have been confined to regular consultations within the Development Assistance Committee (DAC) of the OECD in which all major developed private enterprise countries participate.

The increasing demand for technical assistance

The growing number and importance in the field of development assistance of countries at a very early stage of development has led all the major aid-giving countries to place increased emphasis on technical assistance. Most of these applicants for aid had formerly been under colonial administrations, and the new national governments have been faced with the problem of building up rapidly administrative and technical cadres as well as facilities in education, public health, transportation and many other fields. Their most urgent need has therefore been for technical assistance together with capital aid for general development purposes to create the basic conditions for economic progress. In response to this demand governments in the major donor countries have enlarged their technical assistance programmes and have co-ordinated them more closely with their activities in the field of financial assistance. At the same time they have encouraged the elaboration of development plans as a basis for evaluating the over-all need for capital aid.

Bilateral technical assistance expenditures have doubled since the second half of the nineteen fifties and they have amounted to well over $400 million in 1961 as table 6-7 shows. The increase in outlays for this purpose has probably not been as large as the published figures indicate because allocations under this heading by Belgium, France and the United Kingdom have covered types of expenditures which had formerly been included in the annual budgets of colonial administrations.

Table 6-7. Technical Assistance Expenditures in 1961

Donor	*Millions of dollars*
United States	178
France	140
United Kingdom	47
Belgium	38
Germany (Federal Republic)	27
Other bilateral	10
United Nations Expanded Programme of Technical Assistance	29
TOTAL	469

Source: Bureau of General Economic Research and Policies of the United Nations Secretariat, based on national sources and *Official Records of the Economic and Social Council, Thirty-second Session, Supplement No. 5.*

Technical assistance by the centrally planned countries has increased with the general expansion of their aid programmes. Aid agreements have usually covered not only supplies of equipment and materials, but also the provision of technicians and specialized workers to help in the execution of projects as well as in the training of local personnel. The centrally planned economies,

like the developed private enterprise countries, also have in operation extensive scholarship programmes enabling nationals of developing countries to attend universities and technical schools in the donor countries.

Technical assistance has long been one of the most important aspects of the United Nations work in the development field. Through the Regular and Expanded Programmes of Technical Assistance important work has been done within a modest budget in the various fields of activity of the specialized agencies. The experience of the United Nations, like that of the national assistance agencies, has shown the need for integrated technical and financial aid, but its relatively small resources have thus far precluded an extension of its activities into the field of capital aid.

The contribution of technical assistance has been largely in the domestic field: public administration, health, education, the establishment of technical services, transportation, marketing, agricultural development, etc. But it has also included activities directly related to foreign trade, such as technical advice in the production, processing and grading of export products, the development of new lines of production for export, the development of tourist facilities, and the modernization and maintenance of port facilities and shipping. But even apart from specifically trade-oriented activities, technical assistance has made a contribution to trade by improving skills and the performance of the recipients' economies in general.

Measures for increasing the flow of long-term funds to developing countries

NATIONAL MEASURES

The target set by the United Nations (in General Assembly resolution 1711 (XVI)) for the capital contribution to developing countries is one per cent of the combined gross domestic product of the economically advanced countries. Progress towards this target has been rapid in the recent past, the net flow from the developed countries to developing countries being equivalent to 0.7 per cent in 1961. The advance in 1961 was unsually rapid, and progress in subsequent years is expected to be slower.

The problem of increasing the flow of funds to developing countries in the present circumstances is primarily one of public policy. Whether assistance is extended bilaterally or multilaterally, the ultimate decision regarding the magnitude of public funds to be made available rests with the governments and parliaments of the donor countries.

While the supply of public funds for assistance is determined by political factors, there is also considerable scope for official action to mobilize private funds for capital aid. Several governments have financed loans to developing countries through borrowing in the domestic capital markets. The IBRD likewise has obtained a substantial proportion of loan funds through bond issues in western European countries and the United States. The Government of the Federal Republic of Germany in 1960 placed an issue of development bonds on the domestic market, a substantial proportion of which was taken up by industry under an agreement with the Government.

Virtually all the major developed countries have government or government-sponsored export credit insurance systems. While these schemes apply principally to short-term commercial credits, some countries have broadened them in recent years to cover longer-term credits for exports of capital goods. Coverage is given for political and foreign exchange risks, as well as, in most instances, commercial risks. Although the insured exporters are normally required to carry part of each risk insured, the security offered under these schemes has helped to expand the flow of trade credits to under-developed countries. Another method to stimulate the flow of private capital to under-developed countries is represented by the United States Government's investment guarantee scheme, which provides insurance for new investments against non-business risks, such as war-damage, expropriation and inability to remit income earned to the United States. A similar scheme is also in operation in the Federal Republic of Germany. Participation of private enterprise in economic development has also been encouraged by tax incentives and the conclusion of international agreements on double taxation.

Other efforts to enlist the co-operation of private enterprise in development assistance have included ventures such as the Commonwealth Development Finance Company in the United Kingdom, which brings together private capital with the specific purpose of financing economic development in Commonwealth countries, and such as the "Working Group for Under-developed Countries" established by industrial and trade associations in the Federal Republic of Germany. In the latter country, industry has also, as noted above, raised funds for development assistance by subscribing to the government bond issue.

While efforts to stimulate the flow of private investment to under-developed countries have yielded results, such private capital cannot meet the large requirements of the under-developed countries for assistance in the development of basic services and of essential projects which yield returns only in the very long run. The main burden of supplying additional resources for such development projects will therefore remain on governments in the developed countries.

MEASURES TO INCREASE THE MULTILATERAL FLOW

The demand for more varied and larger multilateral financing facilities has grown with the number and needs of Members of the United Nations and its specialized agencies. Discussion within these institutions has therefore increasingly focused on the problem of evaluating the need and the available financial resources and on the possibility of establishing new channels for multilateral assistance to under-developed countries.

As indicated earlier, the resources of both the IMF and the IBRD have been augmented in recent years so as to enable them to intensify their activities and, in addition, several new lending and assistance agencies, have been established both within the United Nations system and outside it. The impact of these developments on the future flow of multilateral financial assistance is indicated by the following data on disbursements and commitments:

Agency or Fund	Gross disbursements		Commitments	
	1960	1961	1960	1961
	(millions of dollars)			
IBRD loans	341	321	569	568
IFC loans and participations	13	8	15	13
IDA loans	—	—	—	184
IDB loans	—	5	—	177
United Nations Special Fund grants	2	33	58	76
EDF grants	4	17	81	148
TOTAL	360	383	723	1,166

Source: See table 6-6.

Note: The initials refer to the following agencies: IBRD, International Bank for Reconstruction and Development; IFC, International Finance Corporation; IDA, International Development Association; IDB, Inter-American Development Bank; EDF, European Development Fund.

The most important response to the special needs and difficulties of under-developed countries has been the establishment of the IDA, which is empowered to make loans on very lenient financial terms. But since members' subscriptions are its sole source of loan funds, its operation beyond the five-year period for which it was initially set up will depend on the willingness of member governments, especially in the developed countries, to make further contributions. Its initial capital of about $760 million is small in relation to the demands confronting it, and its resources will have been committed before the end of its first five-year term. An increase of its capital is of crucial importance to the financing of development needs in the years to come. This point has been stressed in the proposals for action during the United Nations Development Decade.[12]

Other financing agencies of recent origin, to which reference has been made earlier, are the IDB, established under the auspices of the OAS, and the Overseas Development Fund set up by the members of the EEC. The latter's resources of $581 million, like those of the IDA, were committed for donations before the end of its first five-year term in 1962. A further contribution of $780 million has been pledged by the subscribing members to assure operations up to 1967.

During the past decade efforts have been made to establish a capital development fund within the United Nations. This project has the support of the majority of Member countries, but it has thus far failed to attract the minimum resources required for its successful operation. Draft statutes have been prepared and considered by the Economic and Social Council at its thirty-fourth session and by the General Assembly at its seventeenth session. They have been transmitted to Governments of Member States for comments.

In addition to proposals for the expansion of world-wide multilateral lending institutions, the establishment of a development bank to cater to the needs of African countries has also been recommended. The realization of this project has been brought closer with the adoption of statutes by the Economic Commission for Africa at its fifth session. The bank is to co-operate closely with national development banks and assist especially in the financing of regional projects.

[12] United Nations, *The United Nations Development Decade, Proposals for Action* (Sales No.: 62.II.B.2).

Apart from its financial agencies, the United Nations system has placed great emphasis on technical assistance and pre-investment work. The chief sources of funds for this purpose have been the United Nations Special Fund and the Expanded Programme of Technical Assistance, which have together annual resources of about $100 million, derived from Members' special contributions.

The need for close co-ordination between technical assistance, pre-investment and lending activities has become increasingly apparent as research and action in the field of economic development have been intensified. The major lending agencies have been increasingly called upon to provide technical assistance to borrowers or potential borrowers. At the same time, the experience of technical assistance work by the United Nations itself and by its specialized agencies has pointed up the need for closer links between technical and capital aid. The United Nations Special Fund was established for the purpose of combining technical assistance with some capital aid in the execution of pre-investment projects. The task of such projects is to create and reveal new investment opportunities in under-developed countries and thereby make possible a more efficient use of both domestic and foreign capital. The resources of the United Nations Special Fund have thus far been too small to enable it to engage in more extensive capital development projects. But the Fund has closely co-operated with the IBRD and the IDA, which have helped to formulate a number of pre-investment surveys.

In addition to the recent and proposed expansion of multilateral financing and technical assistance agencies, the United Nations has also established, on an experimental basis, a programme for the utilization of food surpluses for developmental purposes. The General Assembly resolution establishing the World Food Programme (1714 (XVI)) provides for pilot projects involving the use of food as an aid to social and economic development, particularly related to labour-intensive projects. While this is a modest step in the direction of utilizing surpluses for economic development, the approach is one that could be given wider application in the future. It has been suggested[13] that the possibility of utilizing surplus capacity as well as surplus commodities for economic development should be explored.

The bilateral and multilateral flow of long-term funds has made a significant and growing contribution to the financing of imports of the developing countries during the past decade. But the deterioration of their terms of trade has reduced the ability of the developing countries to make the most effective use of external assistance. Moreover, the inadequate growth of their export receipts has rendered the servicing of their rising external debt increasingly burdensome. Although bilateral and multilateral lending agencies have eased the financial terms of assistance in order to alleviate the balance of payments difficulties of developing countries, a more basic approach to the problem of domestic expansion and external balance is required. While foreign capital must continue to play a major part in the financing of investment in developing countries, it needs to be recognized that a more vigorous and steady expansion of their exports is a prerequisite of self-sustaining economic development.

[13] *Ibid.*

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