

Eppler, Erhard

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Development Policy

UNCTAD III – Outcome Still Undecided

by Dr Erhard Eppler, Bonn

When the United Nations Conference on Trade and Development meets in Santiago de Chile on April 13, 1972, for its third full session, the representatives of 140 states and multilateral organisations will be faced with a very comprehensive programme including quite a few subjects of dispute. This article by Dr Eppler, the Federal Minister for Economic Cooperation, points out some of the problems on the agenda of the third UNCTAD.

It can certainly not be said that previous full sessions of UNCTAD have satisfied all those who took part in them, least of all the developing countries. Both in Geneva (in 1964) and in New Delhi (in 1968) the demands of the developing countries went far beyond the modest concessions of the industrialised countries. At both these conferences however it was in the end possible to reach compromises and adopt conjointly supported recommendations.

The outstanding result in 1964 was the fixing of the so-called 1 p.c. target for development aid and private performances, with the national income as the basis of calculation. In 1968 there followed the approval in principle of a general tariff preference system favouring the developing countries and the raising of the 1 p.c. of volume target through acceptance of the GNP as the basis of reference. Despite these results, the second UNCTAD session caused particular disappointment to the developing countries. They had carefully prepared for the conference, setting out their ideas in the so-called "Algiers Charter", but the industrialised countries took few of them into consideration.

Old and New Demands

A similar paper will be before the third UNCTAD. It was finally adopted at the preparatory conference of developing countries in Lima in October/November of last year. This "Action Programme of Lima" comprises a multitude of old and new demands

which the developing countries make on the industrialised countries. The developing countries certainly do not entertain the illusion that the developed nations can be made to commit themselves to all these demands in Santiago. A positive answer, in at least some sectors, however will be required from the industrialised countries if an acute confrontation with the developing countries is to be avoided.

The developing countries will not be content with more or less benevolent declarations by the developed nations at the UNCTAD conference. They will try to move the industrialised countries to make clear concessions because an UNCTAD conference offers particularly favourable conditions for such efforts: The developing countries will make a stand as a fairly united faction (the "Group of 77" which has meanwhile attracted 93 countries) and thereby carry more political weight than they could muster individually.

Inauspicious Outlook for Concessions

There seems to be less chance of the western developed countries venturing upon concessions which might appear adequate to the developing countries than was the case at the two previous UNCTAD sessions. The third UNCTAD takes place at a time when the willingness to render assistance is dwindling in the industrialised nations and feelings of vexation are spreading through the developing countries. A monetary crisis which did the developing countries considerable harm although

they were not to blame for it has only just been composed — and that, to the particular annoyance of the developing countries, without any participation on their side. The developing countries have already refused to restrict the Santiago agenda to a few complexes of problems due for decision. That is understandable since it cannot be in the interest of the developing countries to anticipate the findings of the conference and deprive themselves of the opportunity to exert political pressure on the industrialised countries in any and all fields.

The agenda of the coming UNCTAD conference is therefore the most comprehensive of any session yet. It would be going too far to examine all items as to their possible individual impact on the prospects of success at the conference. In the following I shall therefore confine myself to a few especially important or topical groups of problems.

Development Finance

In regard to the financing of development aid the demand is, as at the 1968 conference already, for the 1 p.c. target to be re-formulated. According to the Lima declaration private loans and investments are no longer to count for the 1 p.c. target, and the calculation is, besides, to be based on the so-called net transfer principle — i.e., not only capital repayments but interest remittances are to be deducted when calculating net amounts of aid. The aim thus is a twofold and substantial stepping-up of the 1 p.c. target, which at present is hardly practicable. A look at the aid statistics for recent years unfortunately shows that the majority of industrialised countries could not even reach the 1 p.c. target in its old form. In relation to the GNP the amount of aid rendered has indeed declined since 1968 — from 0.78 p.c. to 0.74 p.c. (in 1970).

The developing countries believe that the Special Drawing Rights (SDRs) of the International Monetary Fund offer another way of raising development aid. A "link" is to be established between the allocation of SDRs and additional development aid in such manner that the industrialised countries cede part of their periodic allocations to IDA and regional financing institutions; these would lend these monies on soft terms to the developing countries. Between \$ 0.5 and \$ 1.5 bn a year could thereby be raised for additional development aid, depending on the extent to which the industrialised countries would forgo SDRs to which they are entitled.

The Federal Government has hitherto disapproved such a "link". According to the International Monetary Fund's articles of agreement, the SDRs

are an international liquidity medium and intended to serve as a short-term financing instrument. If they were to be handed over to developing countries for a long term, they would, it is contended, reinforce the inflationary tendencies in the world. This danger however is inherent in all creation of credit including the creation of SDRs. The question to be asked is whether this danger is heightened by yielding up SDRs to developing countries and whether possibly ways can be found for making such use of them in the context of development aid that no greater danger of inflation arises than occurs when "deficit countries" among the developed states avail themselves of SDRs.

This problem is being examined by the World Bank and the IMF at the present time. Until their report becomes available most industrialised countries will take a very reserved view of the "link", even though many currency experts of late appear to be more responsive to the idea. For the time being it therefore remains a moot point whether the industrialised countries will be able to honour at least part of their public development aid commitments in the Second Decade without increasing their budget allocations.

Re-examination of Credit Terms

The action programme of Lima calls for substantial improvements in the terms on which public aid is given. All loans are, in principle, to be made on IDA terms, i.e., for 50 years, free of interest, and with 10 grace years. Against such demands it has been argued ever since development aid began that an excessively low interest rate induces borrowers to waste capital.

What use is made of the resources, however, depends largely on the way in which they are provided. Besides, considering the stringent financial bottlenecks embarrassing the developing countries, they are unlikely not to understand that capital is a commodity in limited supply. The high interest rates exacted for public development aid loans in the past have certainly contributed to the creation in many developing countries of a debt problem in addition to the problem of overcoming their backwardness. The time has arrived for a reexamination of the credit terms with the aim of conceding generally more favourable terms, at least to the large number of especially needy countries.

As for private development aid, the action programme of Lima demands that private direct investment should, chiefly through tax measures in the industrialised states, be directed along more beneficial channels. This demand is of especially topical interest to the Federal Republic because

the Development Aid Taxation Act is to be amended shortly and its efficiency from the point of view of development policy is to be investigated in this connection.

Monetary Policy – an Inflammatory Subject

Against the opposition of the western industrialised states, the developing countries have made sure that the repercussions of the monetary situation will be treated as a separate item on the agenda. This point was already a matter of controversy between developing and developed nations when the UNCTAD board met to fix the agenda for Santiago.

The western industrialised countries regard UNCTAD as a discussion forum for problems bearing on the Third World and on development aid but not for the monetary issues with which the IMF, which has a majority of rich countries, is competent to deal. The developing countries, on the other hand, want to use the conference as a forum for advancing their interests in this as in other fields. It is not surprising that they try to achieve thus a greater share in decisions on matters of monetary policy. The importance of such a share in decision-making was certainly brought home to them during the monetary crisis which has now been settled. Proposals have therefore been made for extending the Club of Ten of the rich nations by including two or three developing countries. This item on the agenda is especially explosive.

In the sphere of trade the industrialised countries at the last conference in New Delhi heralded an important step forward by approving, in principle, a general tariff preference system favouring the developing countries. Unfortunately however the EEC and Japan alone have as yet acted on the pledge given in 1968. The USA could not even make up its mind to exempt the developing countries when they introduced the 10 p.c. tariff surcharge on August 15 of last year, and must therefore expect to be censured especially severely.

Under the existing general preference systems the demand is for an enlargement of the range of favoured goods and the removal of quotas and other obstacles to trade. Many developing countries have in the past felt under a special handicap in the very fields in which they assumed the opportunities to be greatest, such as agricultural produce, leather goods and textiles. The Federal Republic of Germany has its hands tied, as an EEC member, with regard to bilateral measures, at least as far as tariff rates are concerned. It could however work more vigorously inside the EEC in support of the developing countries and a growth-

orientated structural policy in Europe. To start with, an extension of the preferential arrangements to processed agricultural products could be envisaged within the framework of the EEC. The food processing industry belongs to the industries in which the developing countries have comparative cost advantages on their side.

Trade and Structural Policy

More stress is being laid on the legitimate demand of the developing countries that the industrialised countries should take the interest of the developing countries into consideration when formulating their structural policies. In this field the long-term interests of the developing and developed nations coincide in a particularly self-evident manner. Structurally weak industries of industrialised countries could operate profitably in the conditions offered by the developing countries. In most cases it would be enough to revise the production ranges, e.g., by shifting intermediate and finishing processes to developing countries, in order to rehabilitate the developed nations' marginal enterprises and create additional scope for promising products which cannot yet be made in developing countries. Such a course would result in assured growth for developed nations and diversification of industry and exports for the developing countries.

Hence such a structural policy of the industrial states is in the mutual interest and yet not easy to achieve when it comes to removing concrete import obstacles or subsidies in practice. Through its development policy concept the Federal Republic has however pledged its support for an active structural policy which largely meets the demands of the developing countries.

One of the most important topics at the conference will, finally, be the support for the least developed countries. These are a group of 25 countries—16 in Africa, 8 in Asia and 1 in Latin America—which rank lowest, not only in the state, but also in the pace of development and are, consequently, falling farther and farther behind. Special measures and special targets are demanded for these countries regarding the volume of aid and the setting-up of a special fund. Any preferences given to the least developed countries are not however to be at the expense of other developing countries. Conflicts may arise here among the developing countries themselves, chiefly between the African and the Latin American groups.

The industrialised countries have hitherto failed to pay sufficient attention to the problems of the least developed countries but now appear to be ready for concessions, especially in regard to aid

terms. Necessary though these measures are, they will benefit only a very small part of the Third World population — about 8 p.c. Readiness for concessions on the part of the industrialised countries in this field cannot therefore be an alibi for an unyielding posture in others.

Uncertain Outlook

Whether the readiness of the industrialised countries to make concessions will be altogether sufficient to elude failure in Santiago or whether the conference will result in a further exacerbation of

the differences is thus still an open question. It seems certain that a harsh confrontation in Santiago would be in the interest of the Chinese People's Republic which in this case could come out as spokesman for the developing countries. Federal Chancellor Willy Brandt appreciated this political danger when he urged the industrialised states in his speech at the Nobel Peace Prize award in Oslo to make constructive contributions in order to prevent the conference causing bitter disappointment to the developing countries and thus turning into a failure. The Federal Republic should set here a good example.

Trade and Development Expectations of LDCs

by Ahmad Naini, Hamburg *

The developing countries are likely to use UNCTAD III to vent their disappointment at this institution's failure in the past to find a satisfactory solution for the questions of trade and development policy which are of interest to them. The great expectations of the developing countries have in fact been left essentially unfulfilled in regard to development aid, lower trade barriers and grant of preferential tariffs for manufactured and semi-manufactured products as well as in the difficult area of raw material policy.

The negotiations in the Trade and Development Board between August 24 and September 20, 1971, to draw up a working programme for the Third Conference were overshadowed by the monetary crisis. The developing countries (LDCs) drew attention to the disadvantages of US commercial measures for their exports and of the suspension of the dollar's convertibility and the floating of the currencies of other industrialised states for their foreign exchange reserves. They expressed the view that the existing monetary system was working to the exclusive advantage of the industrialised countries and demanded participation on equal terms in the solution of the international monetary issues. They further claimed an offset for the burdens falling on them as a result of the current monetary crisis. Although the industrialised countries did not consider UNCTAD competent to deal with monetary questions, the LDCs used their superior voting power for placing the monetary issue as a separate item on the agenda of UNCTAD¹.

At the meeting which the 'Group of 77' held in Lima to decide on a common platform of the LDCs at UNCTAD III the monetary issue also came to the fore². The protracted monetary crisis has, it is

true, been composed by the fixing of new parities at the Washington meeting of the Club of Ten, the ten strongest financial countries of the western world. In the long term however the western world will not be able to evade the need for a fundamental reform of the international monetary system. The LDCs will continue to criticise any decision on questions of monetary policy which is arrived at without their cooperation and fight to secure their right to a say in matters. Well justified though the demand of the developing countries in this respect is from their own point of view, the international monetary problems can scarcely be solved in a body such as UNCTAD where the USA vote carries no more weight than that, e.g., of small African states. Whatever decisions are reached by outvoting the financially strong states are liable to lack practical significance.

Among the most important demands of the LDCs at the First and Second United Nations Conferences on Trade and Development was one for

* Hamburg Institute for International Economics.

¹ Cf. UNCTAD, Report of the Trade and Development Board on its Eleventh Session, TD/B/385.

² Cf. UNCTAD, Third Session, The declaration and principles of the action programme of Lima, UNCTAD/TD/143.