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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 UNCTAD<sup>1</sup>.

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 fore<sup>2</sup>. 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

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

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

international agreements on primary commodities. The First Conference accordingly adopted a general resolution, while the Second Conference decided on an action programme with a definite time-table and rules of procedure covering 19 commodities.

Despite extensive negotiations within the framework of UNCTAD and many other UN organisations, the results achieved in the field of the primary commodities are not very impressive. For sugar, tin, coffee and wheat only have international agreements been achieved since the Second Conference. And of these the agreement for tin alone can fulfil its function as a price stabilizer because it provides for export quotas in combination with a financially fortified buffer pool to be used whenever prices move beyond a certain high or low point.

### Problems of Raw Materials Trade

The experience gained so far with the international commodity agreements indicates that the problems facing the raw material trade cannot be solved by such arrangements alone. For even if raw material agreements ensure some measure of price stability for a certain time, they cannot counteract a downward trend in demand. Nobody is in a position to curb technical progress and the advance of substitute materials in the longer term. This being so, the Third Conference will have to give priority to speeding up the diversification of the export structures of the LDCs. A change in the structure of production in the LDCs is the only means of checking the decline of their share in world exports — 21.3 p.c. in 1960, but down to 17.6 p.c. in 1970.

Although the First, and still more the Second, Conference concerned itself with the issue of export diversification, no significant advances have so far been made in this field. Anticipating higher prices for raw materials, the LDCs made greater efforts to bring about commodity agreements and to press unrealistic demands for curbing the production of synthetics in the industrialised countries than to get away from dependence on individual commodities. In 1969, for instance, copper accounted for 94.5 p.c. of all exports in Zambia and 77.7 p.c. in Chile and coffee for 79.5 p.c. of the exports from Burundi and 58.2 p.c. from Ethiopia. The diversification issue has more recently been brought to the fore, chiefly by its discussion in the UNCTAD-Committee on Commodities and by investigations

into the problem<sup>3</sup>. The Third Conference must now initiate the necessary steps.

### Tariff Preferences as a First Step

The preference system of the European Communities which came into force on July 1, 1971, may be appraised as the first success in the negotiations for tariff preferences for exports of manufactured and semi-manufactured products from the LDCs which have been in progress since the First Conference in Geneva (in 1964). The EEC no longer waited for the OECD countries to present a joint offer but, giving a lead to the other industrialised countries, took the initiative for introducing a preference system. Similar agreements have since been put into effect by Japan and Norway as from August 1 and October 1, 1971, respectively, and by Great Britain, Sweden, Switzerland and Austria from January 1, 1972.

As a matter of fact the EEC, as well as the other countries, have in principle implemented the recommendations of the Second Conference for the grant of a universal, non-discriminatory and non-reciprocal preference system, but they cannot achieve the desired effect because of numerous exemptions and ceilings built into them and bureaucratic procedures. To go by the experience gained so far with the EEC preference system, one gathers the impression that the system involves administrative expenses out of all proportion to the benefits it bestows. The EEC is expected to carry out a fundamental review of this system, especially in regard to the removal of tariff quotas and quantitative ceilings, as well as by mitigating the measures for the protection of indigenous products. Besides, the number of exemptions is to be reduced and the administrative procedure to be simplified.

### Existing Non-Tariff Barriers

The grant of tariff preferences is, in spite of these shortcomings, an important step towards improving the access to the markets of the industrialised countries of manufactured and semi-manufactured products from the LDCs. The discussion about tariff preferences at the Third Conference will therefore concentrate on improving the existing preference system and demanding its early adoption by other industrialised countries, chiefly the USA. It is however certain that the tariff preferences alone will not result in the desired increase in foreign currency earnings which the LDCs need to finance their development. Manufactured and semi-manufactured products currently account only for about 25 p.c. of all exports from LDCs. These exports cannot be speedily increased except by a

<sup>3</sup> Cf. C. Wilhelms, D. W. Vogelsang, "Untersuchung über Fragen der Diversifizierung in Entwicklungsländern" (Investigation into Questions of Diversification in Developing Countries), HWWA Report No. 3, HWWA-Institut für Wirtschaftsforschung-Hamburg (Hamburg Institute for International Economics), Hamburg, July 1971.

fundamental modification of the structure of production and a corresponding adjustment of exports to demand in the industrialised countries.

The existing non-tariff barriers to trade are an important handicap for exports of manufactured and semi-manufactured products from LDCs. They range from discriminatory practices in government purchasing to consular formalities and health and safety regulations and extend even to questions of packaging and obstructive administrative charges. The quantitative import restrictions are the principal obstacle of this kind. According to an estimate by the Pearson Commission, about 30 p.c. of the industrial products of the LDCs are subject to quantitative restrictions<sup>4</sup>. Despite many UNCTAD recommendations for the removal of such barriers to trade, the negotiations which were pursued for years under GATT auspices have until now yielded no significant benefits to LDCs, apart from their meagre gains from the Kennedy Round.

### Supplementation by Capital Transfers

It has become increasingly clear of late that the LDCs must largely rely on their own financial resources for carrying out their development policy projects. The Pearson Commission noted that the LDCs have themselves provided 85 p.c. of the capital required to finance their investments<sup>5</sup>. Nevertheless an inflow of foreign capital is indispensable, especially for financing the imports needed to build up the economy. At the two previous conferences UNCTAD therefore discussed the possibility of augmenting the inflow of capital by public and private development aid on the part of the industrialised states as well as by the specialised form of financing development by the international organisations.

Despite recommendations and promises by many quarters, the aid rendered by the industrialised countries has lagged behind the target of 1 p.c. of GNP. The total aid rendered by the industrialised countries of the West (the DAC states) has indeed risen in absolute terms, but its share as a proportion of GNP declined from 0.89 p.c. in 1960 to 0.78 p.c. in 1970. The public aid alone also fell off relative to the GNP — over the same period from 0.52 p.c. to 0.34 p.c. The Netherlands, France, Belgium, Australia and Great Britain were the only countries to reach the 1 p.c. target for all development aid in 1970<sup>6</sup>. Public development aid however was in all countries substantially below the

0.7 p.c. target which according to UN plans for the Second Development Decade is to be reached by 1975 at the latest.

### Mounting Indebtedness

This relative decline in aid services, contrary to the recommendations, and many other as yet unfulfilled stipulations will occupy much time at the Third Conference, and so will the mounting indebtedness of the LDCs in particular. Debt servicing payments by 80 LDCs amounted to \$ 5.0 bn in 1969 and \$ 6.0 bn in 1970, according to World Bank calculations<sup>7</sup>. In Lima the LDCs called for more favourable aid terms to improve their debt position; official capital aid is to be given at an interest rate of 2 p.c. per annum with a repayment period of at least 25–40 years and no less than 7–10 years without obligatory redemption.

To make sure of finance for the economic growth in the LDCs, financial sources of the international organisations were to be drawn upon in addition. Above all a financing system was to be created to offset reduced earnings due to fluctuations in export proceeds which interfere with the pursuit of development plans. The compensatory financing method provided for within the framework of the IMF since 1963 is of this kind. It provides for the grant of balancing payments of up to 50 p.c. of the IMF quota if the export proceeds fall off over a short period. Neither this system nor the Special Drawing Rights of the IMF in existence since 1970 however can meet the requirements of the LDCs because they cover only small amounts and are tied to harsh conditions. The LDCs therefore call for a readjustment of quotas so as to give more consideration to their interests and for a link between development aid and Special Drawing Rights.

Besides, the LDCs are pressing for the implementation of the recommendation concerning the creation of a finance system especially suited to them which was adopted at the First Conference already. This so-called Supplementary Financing was intended to provide capital over a longer span of time and in larger amounts to offset fluctuations in the export proceeds of LDCs. The decision on the creation of this system has however been deferred pending further investigations although the World Bank studies on functional procedures and financial sources for the system have been available since 1965<sup>8</sup>. Whether UNCTAD will now succeed in bringing this question to a solution is doubtful.

<sup>4</sup> Cf. Report of the Commission on International Development. New York, N.Y., Washington, D.C., and London 1969, p. 87.

<sup>5</sup> Ibid., p. 30.

<sup>6</sup> Cf. OECD, Development Assistance, 1970 Review and OECD Press Release.

<sup>7</sup> Cf. World Bank, Annual Report 1971, p. 56 seq.

<sup>8</sup> Cf. D. Kebschull with collaboration of K. Fasbender and A. Naini, *Entwicklungspolitik — Eine Einführung* (Development Policy — an Introduction). Hamburg 1971, p. 138.