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UNCTAD III

An Interview with Professor Karl-Heinz Sohn, State Secretary in the Federal Ministry for Economic Cooperation, Bonn

Professor Sohn, in the view of Gunnar Myrdal the first and second UNCTAD conferences were absolute failures. Would you accept such an assessment for the third conference?

I do not share this view. There was certainly much speechifying at these conferences, but it is my opinion that some points of substance were cleared up and later acted upon by the member countries of UNCTAD.

I also think that the third conference was more fruitful than the first two, at least in its approach. Problems were given a first airing which had not been broached at all at the other conferences — international monetary policy, especially the problem of the special drawing rights; the situation of the 25 least developed countries; industrialisation and diversification in developing countries. In the choice of subjects Santiago was thus more compact, better prepared and for these reasons more successful.

However, the overall result of this mammoth assembly, which is growing in size conference after conference, is not always commensurate with its cost. So, if Gunnar Myrdal was thinking of the relation of cost to attainment, his negative appraisal of the first two conferences undoubtedly also holds good for the third UNCTAD. But then it is even more difficult in politics than elsewhere to measure quality, and for this reason I incline to the view that compared with what could reasonably be expected UNCTAD III has certainly proved a success.

Reform of UNCTAD

Are efforts being made to economise on future UNCTAD conferences?

Yes, I believe that all concerned are agreed that UNCTAD as constituted hitherto should probably not go through a fourth sequence. A reform is indispensable. For one thing, future world trade conferences must be cut down in size and cost in terms

of time. Secondly, the number of topics to be discussed ought to be reduced while those to be dealt with require intensive preparation. Thirdly, the objectives put forward must be realistic, so that the speakers are not at cross purposes and decisions are not taken by majority vote which will not afterwards be acted upon. It would be a big step forward if there were a greater assurance of majority decisions being upheld jointly by industrial and developing countries.

Do you see a possibility of the UNCTAD conferences evolving into a decision-taking organ?

I do not know whether such a reform of UNCTAD would alter anything in principle. Even if it were turned into a UN organ, its decisions would not necessarily be binding on all member countries. The UN has taken a number of decisions by majority vote — the Decade Strategy comes to mind — which were not explicitly accepted by the industrial countries. To my mind the advantage of the present

UNCTAD is that accepted recommendations are drafted in such a way that they can be followed subsequently by all concerned — and that means, above all, the industrial countries —, no matter whether they are binding or not, simply because of the intensity of the preceding accord.

In view of the "confrontation" on many issues it seems doubtful whether one can arrive at universally valid recommendations which are concrete, practicable and not so nebulous that in the end nothing happens.

Inadequate Preparation

I think that in this context three examples may be of interest. The first one is the connection between development aid finance and special drawing rights. The preparations for this item were quite inadequate in my view, both by the developing countries and by the industrial nations. I even suspect that many of the people who spoke about it simply did not know enough about the institution of the SDRs and the possibilities of mobilising them for the financing of development aid. It would have been much easier, I believe, to discuss this item to good purpose if a mixed working group of developing and industrial countries had been formed first to seek agreement on an attainable minimum programme.

The second example is provided by the discussion on the situation of the least developed countries, about which there exist divergencies even among the developing countries. It would have been an advantage if the least developed countries and the developed nations could have agreed on a joint procedure in which the other developing countries would subsequently have had to take part.

The third item concerns the time schedule for development aid contributions. A resolution was agreed with which most of the industrial countries associated themselves later. The whole discussion in Santiago could have been much shorter if mixed groups had been set up to prepare this resolution in particular.

Why was it that such committees were not set up generally to prepare the conference?

UNCTAD Cartels

The main reason is that there are two "cartels" in UNCTAD: a cartel of the developing countries which in Algiers as well as in Lima defined its postulates and posed demands without any contact with the industrialised countries, and a cartel of the developed nations in the framework of DAC. It is my impression that one of the chief causes of the difficulties at UNCTAD III was the fact that the two groups held aloof from each other. When the next conference is going to be prepared, this sort of thing must be avoided.

Have the industrial countries made a suitable offer for improving cooperation between the two "cartels"?

Yes, at the latest high-level meeting of the DAC in Paris the industrial nations discussed whether some developing countries should not be admitted as observers to their annual meetings, the so-called DAC examinations, or whether DAC and developing countries ought to hold a dialogue through some other authoritative body in the intervals. My impression is that we shall do more work on this at one of the next DAC meetings.

The Santiago conference discussed not only how the UNCTAD organisation can be reformed, but how the developing countries can be involved more in-

timately in the decision-making processes of GATT and the International Monetary Fund. What practical possibilities do you perceive for greater involvement of the developing countries with the International Monetary Fund and their participating in decisions?

The Federal Minister for Economics and Finance, Professor Schiller, made an explicit statement on this point in Santiago when he expressed the Federal Government's support for the Lima conference demand that the developing countries should be ensured of equal participation within the decision-making process of the International Monetary Fund. If the Federal Government had its way, the developing countries would take part in the Group of Ten conferences and decisions and be able not only to make their voice heard in an advisory capacity in the thus widened grouping, but to take part in taking decisions.

One of the important demands of the developing countries at past conferences concerned international commodity agreements. Does the objection of the industrial nations—which in Santiago was also raised by Professor Schiller—that such agreements invalidate the international market mechanism seem to you justified?

Commodity Agreements

The German delegation examined the position of the Federal Republic of Germany in regard to commodity agreements at all government levels before it went to Santiago. The Ministry of Economics and Finance is in principle opposed to commodity agreement, as a matter of basic philosophy and also because of the experience gained with this instrument. This does not however rule out the possibility of the Federal Repub-

lic participating in the conclusion of commodity agreements in individual cases. The German position has therefore been stated to be that the Federal Government does not as a matter of principle reject commodity agreements but will examine in each individual case whether such commodity agreements are appropriate to the purpose in view.

Commodity agreements must be decided case by case. The difficulty is the practical implementation of commodity agreements, and the main issue here is the extent, effect and financing of such agreements. In Santiago the most important point, that of financing the agreements, was left in dispute. The Federal Minister of Economics and Finance has tied down the Federal Government very strictly: If new commodity agreements are adopted, they are to be financed out of scheduled development aid contributions. Clearly we must choose priorities. Faced with this difficulty, it seems to us that the financing of production and export diversification projects deserves priority over arrangements to safeguard primary commodities.

Could not these two measures be combined by adopting commodity agreements for a certain period—say, ten years—and tying them up with diversification arrangements so as to end the one-sided dependence of some developing countries on one particular commodity?

Commodity agreements can indeed make sense under development policy aspects, provided they help to cancel out excessive price fluctuations which the developing countries are in no position to influence. For this reason I favour flexible operation of this instrument. It is also advisable to limit the duration of such agreements because one

has no knowledge of what course the prices of individual commodities will take. Besides, a constructive element would be built into these agreements if payment of funds were made subject to the stipulations of a diversification programme. Otherwise there would be a danger of developing countries relying on price stabilisation on a parity basis and desisting from diversification.

But seeing that foreign currency earnings are an essential prerequisite of financing a diversification programme, it may even be said that commodity agreements are an important precondition for a successful export diversification.

Yes, indeed. The problem is the same as the one which we know in Germany from the structurally vulnerable industries. Here we also have to make temporary arrangements in form of income guarantees until regional diversification has been achieved in the areas concerned. Something like that is wanted for the developing countries.

International Division of Labour

The extension of commodity agreements could lead in this direction. Parallel to it, a policy of import liberalisation would be required on the part of the industrial countries. It is really a tragedy how the share of the developing countries in total world trade has shrunk in recent decades. A change of this trend however would presuppose that the developed countries largely cease production in some fields so as to bring about a genuine division of labour between nations.

The EEC has opened the frontiers a little by adopting the system of generalised preferences with effect from July 1, 1971. It has emerged from many

investigations, however, that these preferences, on the one hand, benefit importers in the industrial countries most and, on the other, except important export articles (processed agricultural products and textile manufactures). What measures can in your view be taken to make the preference system more effective?

Minister Schiller stated in Santiago that the Federal Republic would work within the framework of the EEC to have the preference system for developing countries extended. There are two drawbacks of the system in particular which need removing — the quantitative limitation and its restricted application to certain categories of products. The quantitative limitation is certainly only of a temporary nature since it was launched as an experiment, and one must first see how the developing countries will react to this offer. As for the restricted application to certain categories of products, it is true that neurologic items have in part been excepted. We ought to yield less to the wishes of our own industries in this respect and be guided more by the needs of the developing countries and support an enlargement and amendment of the preference system.

Some other industrial nations have not yet adopted a preference system at all. Are there possibilities of all industrial nations agreeing in the near future on a common system of more sweeping preferences for developing countries?

It would indeed be a great step forward if all industrial countries undertook unilaterally to admit goods from the developing countries free of special customs duties. The industrial countries ought to make an attempt in the framework of the OECD to show solidarity with the developing countries and

not to act each in a different way. The main problem is whether the USA, faced with a persistently acute balance of payments position, can at present declare itself ready to do that.

The One-per-cent Clause

To turn to the problem of the ratio development aid to GNP in the industrial countries, has the Santiago conference adopted a new resolution in this direction?

Yes, a resolution was adopted which commits the industrialised countries to attainment of the one-per-cent target by 1975 at the latest. The Federal Republic associated itself with this resolution after some to and fro subject to the qualification, however, that the Federal Government can exercise only a very indirect influence on the sum total of development aid because, even if public development aid were to come up to the 0.7 p.c. target of the Pearson Commission, another 0.3 p.c. of GNP would have to be covered by private development aid on which the Federal Government can bring no direct influence to bear.

Bearing in mind that public development aid currently amounts to 0.34 p.c. of GNP, nearly two-thirds of the total German aid volume would have to be provided by private investors or financial institutions.

Link between SDRs and Development Aid

In connection with the step-up of public development aid, interest attaches to the proposal that a "link" should be established between SDRs and development aid. The Federal Government let it be known through Minister Schiller that it will give the "link" idea sympathetic consideration. May we conclude that this suggestion

can be carried out in the near future?

The system of SDRs has led to an increase, since January 1, 1970, of the reserves of the industrial countries by 8 p.c. and of the developing countries by 13 p.c. So the benefit to developing countries has so far been relatively greater. A problem arises from the fact that the USA alone has drawn allocations of DM 1.6 bn, while Botswana and Lesotho, to name two countries at the other end, received no more than DM 1 mn.

Basically SDRs are but a kind of current bank account on which the holder may draw up to the limit, that means up to 100 p.c. of the credit facility opened for him. The question is whether SDRs which, like overdraft facilities, provide cover when short-term liquidity is needed should also be used for long-term financial aid to developing countries. My personal view is that the quota allocations should be geared to the future development potential of the third world countries rather than based on the economic capacity built up in the past.

The Debt Problem

The very high payments for debt servicing which the developing countries have to make each year present one of the most substantial problems. What ideas did the Federal Government submit in Santiago for easing the situation created by the debts of the developing countries?

We have made three contributions to the solution of the debt problem. First, we are willing to improve the terms for public credit aid quite substantially — to ease them so as to put the developing countries in a stronger borrowing position. Secondly, we want to apply through the Berne Union the early warning

system, which is being used by the World Bank, in order to keep further growth of the commercial debts of developing countries within as close limits as possible. As you know, commercial repayments account for 50 p.c. of all debt payments, although commercial credits account for no more than 25 p.c. of the total indebtedness. Thirdly, more consideration is to be given to the long-term interests of the developing countries when debt refunding negotiations take place in the near future. The developing countries' ability to make repayments must be kept in sight when the terms and time schedule of refunding operations are determined. We shall, however, have to establish clarity with the World Bank and other donors that such a policy will require additional financial aid by the industrial countries.

What is the attitude of the Federal Government towards a general moratorium?

I believe that arrangements for a moratorium can only be made in particular instances. There are developing countries, like Brazil, which have excellent chances for successful development despite high debts and debt charges. On the other hand, there are developing countries which show very little prospect of ever repaying their debts even though they are small. And we know of developing countries still in debt which would have very good opportunities for development if their debts were refunded on favourable terms. To give an example, Indonesia was in this position. In these circumstances I think one must make a difference between the various types of developing countries.

The least developed countries pose a special problem for development policy. It is the

view of the Federal Government that these countries should be granted credits on especially favourable terms. But are loans sufficient to speed the economic progress of these countries which after all has been very slow in the past?

Least Developed Countries

It can indeed be argued that for the least developed countries we may have to think of something quite new. In the past the major part of German technical aid has gone to these least developed countries, and in the next few years they will receive more personnel assistance from the Federal Government. For the absorption of credits, on the other hand, these countries have a very limited capacity only. What they need most in the way of development aid is personnel for general instruction, vocational training and projects in agriculture, handicrafts and for social development.

To speed up the progress of these countries it is however not enough merely to improve the terms on which capital aid is given or to provide more technical and capital aid. For this reason we shall have to consider whether it is not the particular problem of the least developed countries that they are simply too small, that their domestic market is too narrow and their population potential inadequate, so that regional integration may consequently be the only remedy for them.

More active encouragement of economic mergers inside a region is very seldom envisaged in our development strategy. An exception is the European Development Fund which laid down in its articles that the overall development in the region must receive consideration when funds are passed on to an individual associated developing

country. The country in question is formally the recipient, but every project is examined with an eye to stronger economic integration in the region. This idea must, in my view, be developed further.

To ward off attacks by the developing countries, the industrial nations of the East attempted at the conference to point out mistakes in the development policies of the western industrialised nations. Do you see any justification for the charge of the Soviet Foreign Trade Minister that the western industrial nations alone are to blame for the sorry plight of the developing countries?

The Criticism by the USSR

The remark of the Soviet Foreign Trade Minister must be regarded as an attempt at diverting attention from attacks by the developing countries on the Soviet Union's own conduct.

So far no industrial state can point to an entirely successful record of development measures. It is certainly true that sometimes the interests of the developing countries were neglected regarding international economic and monetary issues. But nobody can seriously argue that the western industrial countries or one or other of their groupings alone must bear the blame for the plight of the developing countries. Nor is it in any way helpful to evoke the relics of colonialism for the sole purpose of diverting attention from one's own reluctance to provide assistance. The developing countries are not helped in solving their problems by "passing the buck" in this way. It seems more important that the industrial states in West and East should soon reach a state of cooperation. They would thereby

render the developing countries a much better service than by a fruitless search for a scapegoat.

Future Role of China

The appearance in Santiago of the People's Republic of China has aroused much curiosity. Do you believe that this debut will have repercussions on the trade and development policies of the industrialised countries?

In Santiago the People's Republic of China did not only subject the industrial states, especially the USA and the Soviet Union, to vehement criticism but introduced itself as a country to be regarded as the model for the Third world. This claim was buttressed theoretically in the past by a Chinese thesis that the relationship between the industrial states and the developing countries mirrored the antagonism of "town versus village", which had come to a head in China at an earlier time. Apart from that, the Chinese People's Republic has meanwhile provided over US \$ 1.2 bn in development aid loans, not to mention its extensive technical aid services.

The Chinese People's Republic will continue its efforts to stand out as the spokesman of the developing countries. Such a forceful Chinese engagement is unlikely to have substantial material repercussions in the near future because China is at home still up against sizeable economic problems. China's new role however is politically of great significance because it may aggravate the polarisation in the relationship of the industrial states and the developing countries. Besides, it will probably turn the discontent and frustration in the developing countries in the direction of social-revolutionary self-appraisal.