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## Issues for the International Community 1978

by Gamani Corea, Geneva \*

**Progress in the restructuring of economic relations between developing and industrial countries has been insignificant in recent years and the current international economic situation is characterized by sluggishness of growth, intensifying protectionist pressures and persistent international monetary instability. Against this background the following article explains the tasks facing the international community in 1978 from UNCTAD's point of view.**

The failure of the Conference on International Economic Cooperation held in Paris in May-June last year, which had aroused such great expectations on the part of the developing countries, has left most of the issues involved in the establishment of the New International Economic Order sought by these countries unresolved. Even the acceptance by the industrial countries participating in the Conference that a Common Fund for financing commodity stocks should be established under UNCTAD's Integrated Programme for Commodities, which seemed to be one of the few positive results of the Paris meetings, turned out to be an illusory success, since the negotiations on the Common Fund which were resumed in UNCTAD in November again failed to produce any agreement.

The developing countries, therefore, entered 1978 in a bitter and disillusioned mood. They are obliged to recognize not merely that progress in the restructuring of international economic relations envisaged in the resolutions adopted by the UN General Assembly since 1974 on a new international economic order, on the economic rights and duties of states and on development and international economic cooperation, has been insignificant, but also that the current world economic situation is characterized by sluggish growth, persistent inflation, continuing monetary instability and renewed protectionist pressures in the industrial countries. The redressing of this ominous economic situation, and the taking of some meaningful steps towards the construction of a new international economic order, are therefore the main tasks facing the international community in 1978. In the fulfilment of these tasks, especially those relating to the construction of a new international economic order, UNCTAD will have a major role to play.

First and foremost among the issues which will have to be resolved by UNCTAD in 1978 is that

of the restructuring of world commodity markets. Since the idea of a new "integrated" approach to commodity problems by the international community was first considered by UNCTAD in 1974 there has been an unprecedented upsurge of debate and discussion on this issue in political, academic and governmental circles throughout the world. The debate has produced some vigorous controversy, notably between those opposed in principle to any interference with "market forces" and the growing number of those who recognize the disadvantages, for producers and consumers alike, of the cyclical fluctuations of prices and supplies which are precisely the result, in many commodity markets, of the unfettered operation of market forces.

During the debate there have been notable shifts towards the latter point of view on the part of the governments of certain industrial countries which have been traditionally inclined to take the former position. Among the factors explaining these shifts have been increased concern with short-term security of supplies of essential commodities, prompted by the experience of the shortages of 1972-1974, a new awareness of the effect of commodity price instability in exacerbating the problem of inflation, and anxiety about the low levels of investment in production of key mineral commodities resulting from the current depressed state of the markets concerned.

As a result of these shifts in attitudes and thinking, there has emerged an international consensus on the need for a new, concerted effort to improve the stability and functioning of markets for a wide range of primary commodities in the interests of both producers (mainly developing countries) and consumers (mainly developed countries). This consensus was reflected in the adoption by UNCTAD at its fourth session in Nairobi in 1976 of the Integrated Programme for Com-

\* Secretary-General of UNCTAD.

modities. This Programme laid down procedures for the preparation and negotiation in UNCTAD of international arrangements for a wide range of primary commodities of export interest to developing countries on the basis of an agreed set of objectives and measures. It provided also for the convening by the Secretary-General of UNCTAD of a negotiating conference on a common fund as a central financial instrument of the Programme.

### **Slow Progress**

Nevertheless, despite the reaching of prior agreement among governments on the objectives and measures to be applied, as appropriate, in international arrangements for commodities, progress in implementing the Programme has been disappointingly slow. In October 1977 negotiation on a new International Sugar Agreement was successfully concluded. However, among the other commodities mentioned in the Programme (apart from those for which international agreements already existed) there was at the end of 1977 only one — rubber — in respect of which it could be said that there were clear indications of movement towards a negotiating conference, even though the Programme called for the completion of preparatory work on individual commodities by February 1978 and for the conclusion of negotiations by the end of that year.

In this connexion the Secretary-General of UNCTAD has drawn attention to the contrast between, on the one hand, the general pronouncements of governments in favour of action and, on the other hand, the slow progress of the actual discussions on individual commodities, in which there appears to be a marked reluctance on the part of some governments to move beyond the stage of analysis and study to active consideration of specific measures. It would now seem vital, if progress is to be accelerated in 1978, that governments should take firm decisions in principle on the number and kind of arrangements they wish to see established for individual commodities, and enter quickly into negotiations on the formal details.

The rate of progress in implementing the Programme in 1978 will also depend in large measure on the outcome of the deliberations which governments are now undertaking following the suspension in December of the second session of the UN Negotiating Conference on a Common Fund. The commitment to the establishment of a common fund to serve as a key instrument in attaining the agreed objectives of the Integrated Programme for Commodities, which had been given by the developed market economy countries at the Paris Conference on International Economic Cooperation in June, had been expected

to lead to positive results at that session, following the inconclusive first session of the Conference earlier in the year. However, no agreement could be reached at the second session on two issues which the developing countries considered to be of fundamental importance for the establishment of a common fund which would be a key instrument of the Integrated Programme. One was their claim that the capital resources of the Common Fund should be provided in substantial part in the form of direct contributions from governments and not merely, as proposed by the developed market economy countries, in the form of cash deposited with the Fund by the authorities administering individual international commodity agreements. The second issue was the insistence of the developing countries that the functions of the Fund should not be limited to the financing of buffer stocks but should include also the financing of other measures, such as diversification and research and development.

Although no agreement was reached on these matters at the Conference, the developed market economy countries have indicated that their minds are not closed and that they expect negotiations to be resumed after a period in which governments will reflect further on the issues involved. Most governments seem to expect the Conference to be resumed early in 1978; the exact date will be determined in the light of consultations which the Secretary-General of UNCTAD will be having with governments to assess the prospect of agreement on the fundamental aspects of the Common Fund. Successful negotiation of a Common Fund early in 1978 would greatly facilitate progress in negotiations on individual commodities, in view of the close relationship which exists between those two elements of the Integrated Programme. It is therefore vital to the implementation of the Programme as a whole. It is vital also to the future of economic cooperation in general between developed and developing countries, since the latter countries see establishment of a meaningful Common Fund as a touchstone of the political willingness of the former countries to collaborate in the building of a new international economic order.

### **Indebtedness of Developing Countries**

Another major issue which UNCTAD will tackle in 1978 is the debt problem of developing countries. By the end of 1977 the outstanding official and private debt of developing countries other than oil exporters can be estimated to have reached at least \$ 250 bn, and servicing of this debt is likely to absorb in aggregate in 1978 about a quarter of the export earnings of the countries concerned. For some individual developing countries this debt service ratio will be

even higher. From the point of view of developing countries, a serious debt problem arises when the cost of servicing debt impinges on a country's capacity to maintain imports essential for development at an adequate level. On this criterion a large number of developing countries, including many of the poorest, have serious debt difficulties. One developed country, Sweden, has taken a lead in inviting all creditor countries to follow its example in writing off official development assistance debt owed to it by a group of about 45 of the poorest developing countries, and similar action is being taken by Canada, the Netherlands and Switzerland.

From 6–10 March 1978 UNCTAD's Trade and Development Board will meet in special session at Ministerial level, focusing on this problem as called for in Resolution 94 (IV) adopted at the fourth session of the Conference<sup>1</sup>. This Ministerial session is expected to be a major turning point in international discussions on debt. An Intergovernmental Group of Experts has already identified three main issues that will be before it. The first is the fact that the bulk of official debt owed by the poorer developing countries, in particular, the most seriously affected, least developed, landlocked and island developing countries dates back ten or 15 years and was given on terms and conditions which were thought to be appropriate at that time. However, standards have changed in this regard and, in view of the adverse effects suffered by these developing countries as a result of the events of the last few years, there is now widespread agreement that official development assistance (ODA) to the least developed countries should be essentially in the form of grants: moreover official development assistance to the most seriously affected (MSA) countries is often on terms equal to, or better than, International Development Association (IDA) terms. But the implicit grant element of the actual outstanding official debt of the least developed countries is about 63 per cent, and of the MSA countries, about 51 per cent, far below the grant element of, say, IDA-type loans. It has been argued that this inconsistency between these historical terms and the terms of new ODA should be resolved by debt relief serving as an *ex post* correction of the past terms. The logic of this has already been accepted wholly or in part by some developed donor countries, such as Sweden, Switzerland, Canada and the Netherlands. The proposal before the Trade and Development Board is to extend this recognition by the adoption by other developed donor countries of appropriate measures regarding relief on official debt owed to them by the least developed, most seri-

ously affected, landlocked and island developing countries.

The second issue relates to developing countries which enjoy access to private capital markets. These countries do not face difficulties in servicing their debt as such. But owing to the inadequate functioning of the capital markets, capital is available to them only on relatively short maturity periods – up to a maximum of 5 to 7 years. These funds are required for developmental purposes, whose gestation period is often 15 years or even longer and difficulties may arise as a result of "bunching" of repayments on short term loans. As long as these loans can be rolled over, there may not be any real problem. However, there is increasing concern that private intermediaries (such as banks, etc.) may be unable, or unwilling, for a variety of reasons to "intermediate" on the scale or over the time period required. There is thus growing interest in a proposal before UNCTAD for the establishment of a medium/long-term balance of payments facility of adequate size, which would enable interested developing countries to smooth out any bunching problems they may encounter and, by reducing the uncertainty involved in this, enable such countries to borrow from private capital markets with greater confidence and greater effectiveness. The proposal would thus serve to strengthen the functioning of international capital markets and would not in any way replace them.

### Guidance for Debt Reorganizations

The third issue which will be before the special Ministerial session of the Board is the question of agreed common norms to give guidance for future debt reorganizations. The need for such norms was recognized in Conference resolution 94 (IV) and thereafter the issues were further discussed at the Paris Conference on International Economic Cooperation. At this latter Conference proposals were made by both developed and developing countries, but agreement could not be reached on them at that Conference. The issue is now once more before UNCTAD. At the discussions of the Intergovernmental Group of Experts mentioned above, it was the feeling of delegations from the Group of 77 and some delegations from Group B that these proposals could form the basis of successful negotiations towards the establishment of agreed common norms.

Agreement on these three aspects of the debt problem at the Ministerial session of the Board would constitute a major advance and would result in a considerable immediate increase in the net transfer of resources to the poorer developing countries. It would also enable other developing countries to utilize private capital more confidently and effectively. The overall effect would

<sup>1</sup> The article was written before the Ministerial session took place. For the results of the session see the article by Horst H. Gebauer in this issue.

be to give a strong contracyclical thrust to the depressed global economy and to help restore the developmental momentum lost during the last few difficult years.

The relations between powerful transnational corporations and developing countries have given rise to a number of problems which are now under active study by the world community, notably through the UN Commission and Centre on Transnational Corporations in New York and through UNCTAD. The two issues with which UNCTAD is mainly concerned are restrictive business practices and the transfer of technology to developing countries. In both these areas governments are expecting to achieve substantial results in 1978.

### **Restrictive Business Practices**

As regards restrictive business practices, an *Ad Hoc* Group of Experts which has been convened by UNCTAD on this matter is hoping to complete in 1978 recommendations that it will make to UNCTAD's Committee on Manufactures for a set of multilaterally agreed equitable principles and rules for control of restrictive business practices (RBPs) having adverse effects on international trade, particularly that of developing countries, and on the economic development of these countries. If the Committee on Manufactures agrees, the Group's proposals and recommendations will go before a UN negotiating conference on the equitable principles and rules which has been scheduled for November 1978. The *Ad Hoc* Group of Experts is also expected to make recommendations in 1978 on three other issues which have been referred to it by the Committee on Manufactures. These are: the supply of information about RBPs by governments, the collection and dissemination of such information by UNCTAD and its exchange, possibly through UNCTAD, between governments; the elaboration of model laws on RBPs to assist developing countries in devising appropriate legislation; and recommendations for technical assistance to developing countries for training officials concerned with RBPs.

### **Technology Transfer**

With regard to transfer of technology, UNCTAD is actively involved in the work to establish new norms with a view to improving the legal environment for the transfer of technology to developing countries. One major agenda item for 1978 in this field is the establishment of an international code of conduct on transfer of technology. An inter-governmental group of experts of UNCTAD has already met for a total of five weeks to draft such a code, and is expected to complete this task by the middle of this year. The draft now taking

shape has as its components principles and objectives, national regulations, restrictive practices, responsibilities of or guarantees by technology supplying enterprises, international collaboration, special treatment for developing countries, scope of application and settlement of disputes. The completed draft will be put before a UN Conference on the Adoption of a Code of Conduct on Transfer of Technology which has been convened for October/November 1978. In adopting the code, the Conference will decide on its legal character, a matter on which there is as yet no agreement between developing countries, which want a legally binding code, and developed market economy countries which want a code having the character of voluntary guidelines. Another item of continuing concern is the revision process involving the industrial property system (patents, trademarks and the Paris Convention).

Another aspect of UNCTAD's work in the technology field in 1978 concerns the preparations for UNCTAD V (Manila, May 1979) and for the UN Conference on Science and Technology for Development which is scheduled to take place sometime in 1979. Both these conferences are expected to make important contributions towards strengthening the technological capacity of developing countries and marking the way towards their technological transformation. In this connexion a special unit, the Advisory Service on Transfer of Technology (ASTT), has been established within UNCTAD for the provision of assistance to national governments and regional authorities in establishing national and regional centres for the transfer and development of technology and in devising appropriate technology policies and related institutional machinery.

### **Protectionism**

Two inter-related issues which will also require the attention of UNCTAD in 1978 are the resurgence of protectionism in the developed market economy countries and the very meagre results achieved so far in the GATT multilateral trade negotiations for the developing countries. The building up of pressures for protectionism in many developed countries through the application of quantitative restrictions and the so-called "voluntary export restraints" and "orderly marketing management" in sectors of economic and trade importance to developing countries, e.g. textiles, footwear and other leather goods, electronics and steel, is a matter of grave concern for developing countries. Moreover, a real threat exists that these trade restrictions will be extended to other manufactured products. It is important, therefore, that developing countries should exert maximum individual and collective pressure within UNCTAD and GATT against these trends, since their con-

tinuation could lead to a general retreat back to protectionism, with serious adverse consequences for the trade and development of developing countries.

As regards the multilateral trade negotiations, the developing countries have entertained great expectations that these would result in substantial additional benefits for their international trade, as envisaged in one of the objectives laid down in the Tokyo Declaration. However, the slow pace of the negotiations, the limited concessions made so far and the unresponsive and firm stands taken by the developed countries on many concrete proposals of developing countries have given rise to considerable disappointment and grave doubts on the part of developing countries as to the eventual outcome of the negotiations for them. Of particular importance to developing countries is the concrete attainment of the objectives of the Tokyo Declaration concerning special and more favourable treatment, non-reciprocity and special procedures in favour of developing countries in the areas covered by the negotiations. Unless these objectives are attained, developing countries will experience the same disappointment as they did during the previous "Kennedy Round" of trade negotiations, from which they obtained only modest benefits.

### **Preparation of a New Development Strategy**

Another important task which the world community will be pursuing in 1978, and in which UNCTAD will be closely involved, is the preparation of a new international development strategy for the 1980s. Work on this matter is already under way within the organizations comprising the United Nations system and the Trade and Development Board has already considered a preliminary report on it by the Secretary-General of UNCTAD. There is widespread recognition among governments that the International Development Strategy adopted by the UN General Assembly for the Second United Nations Development Decade (the 1970s) has failed, since there is now virtually no prospect that its basic targets will be achieved. The reasons for this failure, the lessons to be drawn from them and the implications for the design of a new Strategy for the 1980s, are questions which are already giving rise to considerable debate.

Many developing countries feel that a new Strategy should be directed essentially towards the implementation of the programme of action already adopted by the General Assembly for the establishment of a new international economic order, i.e. that it should aim at a fundamental reform of the structure of economic relations between developed and developing countries. Many

developed countries consider that a new Strategy should focus, in as operational a manner as possible, on the satisfaction of the basic needs of the populations of developing countries.

The Secretary-General of UNCTAD has suggested that the basic reason for the failure of the existing Strategy is that it was based on a number of faulty concepts and assumptions, notably the concept that economic growth in the Third World would receive a major stimulus from external forces in the forms of demand for developing countries' exports, private investment, transfer of technology and official financial aid. The validity of this concept has been put in doubt by the worsening of the terms of trade of most developing countries, and the slowdown in the growth of external demand for Third World exports of raw materials and manufactures, which have resulted from the marked acceleration of inflation originating in the developed market economy countries from 1971 onwards, the severe cyclical recession in these countries in 1974-75, and the persisting structural crisis which has since slowed down their economic growth. The concept has been undermined also by the failure of most developed countries to meet the 0.7 per cent of GNP target for official development assistance to developing countries. The tentative conclusion drawn from this was that a new international development strategy should be based essentially on measures to promote the individual and collective self-reliance of developing countries on the one hand, and on international measures of support for the development efforts of the Third World on the other hand. It was considered also that if such a new Strategy was to be viable, the latter measures would have to be as far as possible of a contractual, rather than an "inspirational" character.

### **Expanding Collective Self-Help**

The need to strengthen their own collective self-reliance, as a means of both reducing their economic dependence on developed countries and increasing their bargaining power vis-à-vis these countries, is now well appreciated by developing countries. Their determination to pursue this goal has already been clearly manifested in the decisions of the Conference on Economic Cooperation among Developing Countries held by the "Group of 77" countries in Mexico City in September 1976, in similar decisions taken by the "Non-Aligned" group of developing countries and in the Declaration and Programme of Action on Afro-Arab Cooperation adopted at the Summit Conference of African and Arab countries held in Cairo last year. These various decisions have in effect launched an intensive programme of studies on possibilities for expanding collective self-help among developing countries through

such means as preferential trade and payments arrangements, mutual financial assistance, joint production and trading enterprises, cooperation in the fields of technological exchange and research and development, etc. It has been agreed, moreover, that UNCTAD should provide substantial assistance to developing countries in their self-help efforts and for this purpose a new Committee on Economic Cooperation among Developing Countries has been established by the Trade and Development Board. The work of this Committee will clearly be highly relevant to the task of preparing UNCTAD's contribution to the design of a new international development strategy for the 1980s.

Mention must be made, finally, of another important issue which will have to be resolved by UNCTAD before the end of 1978, namely, the agenda of the fifth session of the Conference, which is to be held in Manila in May 1979. It is

obvious that the substantive content of this agenda will depend greatly on the progress during 1978 of the work described earlier in the present article, particularly the work on the Integrated Programme for Commodities and on the debt problems of developing countries. However, the current international economic situation, characterized by the continued sluggishness of growth in the OECD countries, intensifying protectionist pressures and persistent international monetary instability, gives cause for great concern on the part of developed as well as developing countries, and it may well be that the repercussions of these problems on the latter countries will call for special measures, or the launching of appropriate new policy initiatives, by the international community for dealing with them. In that case, the need for such emergency action will almost certainly find reflection in the agenda for UNCTAD V.

## The Negotiations on a Common Fund

by Konrad Seitz, Bonn \*

**The developing countries regard the "Common Fund" for the financing of the Integrated Programme for Commodities as the symbol of a new and more equitable International Economic Order. In the industrialized countries, on the other side, many people see in it a symbol of the attempt to replace the liberal system of the world economy by worldwide dirigisme. Is there a prospect of agreement?**

In May 1976, the issue of a Common Fund threatened to wreck the Fourth United Nations Conference on Trade and Development in Nairobi. Only in the last minute the western countries gave in and agreed "that steps would be taken towards the negotiation of a Common Fund". As they saw it, however, this formula left the question still open whether there was to be such a fund. After three preparatory meetings a conference to negotiate on a Common Fund convened in Geneva in March 1977, but was adjourned four weeks later without having achieved any results. The atmosphere nevertheless remained fairly conciliatory as the EC countries had at their Rome summit shortly before the adjournment endorsed the creation of a Common Fund in principle.

The final break-through on the question of whether or not to have a Fund came at the Paris Conference on International Economic Cooperation (CIEC) in June 1977. The European Community and the other western countries represented there gave their assent to the creation of a Common

Fund "as a key instrument to attain the agreed objectives of the Integrated Programme".

With these points clarified the second phase of the Geneva negotiating conference opened on November 7, 1977, but again it did not produce the positive result to which the CIEC participants had committed themselves. One day before the conference was scheduled to close the developing countries moved that it be broken off. They then raised the issue at the 32nd General Assembly of the UN in New York where a resolution was passed, with most western countries abstaining, calling on those developed countries which had not yet done so to assent to the basic elements which would make a Common Fund a key instrument of the Integrated Programme and, furthermore, requesting the Secretary-General of UNCTAD to undertake consultations with a view to reconvening the negotiating conference early in 1978.

There is talk of holding the third phase of the conference in June of this year but whether the views in the various groups will then have been

\* Foreign Office. The author expresses his personal views.