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UNCTAD III, PROBLEMS AND PROSPECTS

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The third United Nations Conference on Trade and Development, which opens in Santiago on April 13th, will be the third occasion on which the developing countries have confronted the rich with the need to use trade and aid measures more effectively to improve standards of living in the Third World.

It is perhaps inevitable that UNCTAD should be seen as a confrontation between two opposing sides. UNCTAD came into being in 1964 in response to the developing countries' anxiety at their worsening position in world trade and the lack of enthusiasm in the developed countries for making adequate financial and technical aid available. Its central thesis was, and is, that the present system of world trade can only work to the benefit of all if members of the system are on an approximately equal footing; which is clearly not the case. The aim was to create an international forum in which representatives from developed Western and socialist countries, and those from developing countries, could meet to discuss and resolve measures to combat these problems. Viewing the developed countries - at least the West-as a solid bloc where the Third World is concerned, the developing countries have attempted, through the formation of the 'Group of 77' (now 96) to create a similar united front on the other side in order to have a stronger bargaining position in negotiations.

Neither of the first two conferences, in Geneva in 1964 and New Delhi in 1968, yielded any spectacular results or any radical policy changes. UNCTAD I resulted in two main positive proposals: for a general scheme of tariff preferences to be applied by developed countries to imports of manufactures from developing countrics - shelved until 1967; and for a scheme of 'supplementary finance' which would compensate developing countries which relied heavily on primary commodity exports - the majority - for foreign exchange losses resulting from world price fluctuation. Nothing has yet come out of this latter proposal.

UNCTAD II had three positive results. Agreement was reached to go ahead with establishing General Preferences; an international sugar agreement was concluded in October 1968 governing the sale of sugar on the marginal 'free' market; and the '1 per cent target' for private and official flows of funds to developing countries was raised by about a quarter, through the technicality of making the target 1% of Gross National Product, rather than of Net National Income. But efforts to get the developed countries to commit themselves actually to achieve the target by a specified date or to adopt a 'target within a target' for official flows were at the time frustrated by the major donors, including Britain. (A target of 0.7% of GNP for official aid has been recommended by the UN Strategy for the Second Development Decade: Britain alone, among major donors, has not accepted the principle).

The draft agenda for the third conference is long and wide ranging. Broadly, however, four priority areas can be identified. First, the role of developing countries in the world monetary system - covering the effects of the recent realignment of major Western currencies and, in the longer term, the possibility of a link between Special Drawing Rights (SDRs) and aid; second, the position of developing countries in world trade following the introduction of General Preferences; third, the question of shipping costs and conferences; and last, the problem of special measures to help a group of 'least developed' countries.

1. Monetary problems

In the short term, the devaluation of the dollar must be welcomed by developing countries, if only because it enabled the US to lift its import surcharge and reduced the immediate risk of a trading war between the US, Continental Europe and Japan. However, dollar devaluation reduced the purchasing power of all monetary reserves held in dollars; moreover the raising of the gold price by $3 per fine ounce brought a windfall gain to the rich countries (about $2.8 billion) which was ten times greater than that to the poor (some $275 million). Since the average level of reserves held by developing countries is now equivalent to approximately 4 months' import needs, while those held by developed countries equals some 6 months' imports, and since developing countries rely more heavily on their reserves because of greater fluctuations in export revenues, the reserve loss resulting from dollar devaluation is likely to have been more serious for developing countries than for developed.

But equally important is the feeling of the developing countries that their interests are overlooked. The monetary settlement is seen as a compromise among the interests of the developed countries of the 'Group of Ten' which takes no account the problems which developing countries face. This dissatisfaction was made explicit in the Group of 77's Lima declaration of November 1971. Since Lima, a rival 'Group of Twenty Four' representatives of Third World countries has been set up to monitor developments on the monetary front.

This move has had its results in the form of an IMF plan to create a new advisory group of twenty countries, including nine developing countries, which could supplement or perhaps replace the Group of Ten. It is arguable whether, in fact, the outcome of the 1971 negotiations would have been much different if these interests had been represented at the time; and one argument for keeping a small negotiating group of the countries of real importance in world trade is that agreement can be reached more quickly. But it is important that the developing countries' interests should be and be seen to be consulted. This applies not only to short term settlements of the November, 1971 type but even more to negotiations on the long term reform of the gold/dollar/SDR reserve system. From UNCTAD's point of view, the most important element of this is the proposed link between SDRs and development finance.

To allocate a higher proportion of new SDRs to developing countries (which would be more likely actually to use them in trade) could, it is argued, be an easy way both of increasing aid flows and boosting world trade. The most popular proposal for the link appears to be that the extra SDRs should be given to the International Development Agency to use within its normal aid criteria. This would at least surmount some of the problems of finding a basis on which to allocate SDRs amongst developing countries.

Rapid progress on the link proposal is unlikely at UNCTAD III, because of the doubts held by the developed countries about the project. Some of these are reasonable. SDRs were not, in the first place, intended as aid funds, but rather as a means of creating extra liquidity at a time (in 1967/8) when a shortage of major trading currencies was foreseen. This shortage has been postponed by the growth of a large US trade deficit and of the Eurodollar market; but if the US deficit were to disappear, the original need for SDRs would reappear; and the criteria for creating world trading finance are not necessarily the same as those for allocating aid.

It has also been argued that to allocate SDRs to the countries which are most likely to use them in trade could be inflationary. In the present situation of unemployment and below-capacity working in most Western economies, however, this latter argument is unconvincing. SDRs could, at this time, provide a very useful boost to the purchasing power of LDCs and compensate, to some degree, for exchange losses.

2. Trade problems

General Preferences, one of the few positive achievements of the UNCTAD system so far, are already seen as grossly overrated. The concession of the principle that developing countries' exports should, in general, have preferential access to developed markets is, in itself, a very significant change in the ground rules of world trade. But although most rich countries (but not yet the US) have introduced schemes, they are not one scheme, as originally envisaged, but several; relatively few processed agricultural goods are included, and hence the value of the schemes to many developing countries (particularly in Africa) may be small; and even on manufactures the offers are hedged about with exceptions (most schemes exclude, or treat as 'sensitive' such items as textiles, clothing, and leather and rubber footwear). The developed countries are unlikely to support the enlargement of general preferences in UNCTAD III since, they claim, the schemes have already made as many 'concessions' as are politically feasible. This shows up the danger of presenting tariff cuts as concessions; it is then implicitly accepted that protectionism represents a norm from which tariff preferences deviate, and that imports from cheaper sources of supply are a 'burden'.

The lack of political will among the rich countries for the development of preferences applies equally to the reduction of non-tariff barriers to imports. The Lima declaration urges preferential action on this front, taking tariff preferences as a precedent. This would, however, be much more difficult to bring about, if only because of the great variety of non-tariff protective measures and the relative subtlety of the non-tariff approach. Nevertheless, it is a highly desirable aim.

3. Shipping

Developing countries as a group feel strongly that the structure of world shipping is biased against their interests. The Conference system is seen as a series of monopolies which dictate inflated shipping rates and deny entry to developing countries' infant shipping industries. In the Lima declaration, the developing countries make three main demands:-

(a) More aid should be given to the development of port facilities and shipping lines in developing countries;

(b) Developing countries' shipping industries should be accepted as members of the relevant Conferences;

(c) A code of conduct for international shipping lines should be drawn up and operated under UN supervision.

A code of practice which has been drafted by the UNCTAD secretariat is likely to be opposed by the European countries and Japan, who are believed to prefer a self regulating ordinance drawn up by the shipping lines themselves. This would not fulfil the aspirations of the developing countries; it would, rather, maintain the existing vested interests, and keep in being the present oligopolistic system. It is easy to see why the European and Japanese governments should be reluctant to accept more deep-rooted changes: the importance of shipping and insurance to the balance of payments, particularly in Britain, Japan and Norway, is considerable.

4. <u>'Least developed'</u>

It is broadly agreed on both sides of the Conference that a 'hard core' of very poor countries can be identified, which are unlikely to be helped by the kind of measures-general preferences, supplementary finance and so forth - on which UNCTAD has so far concentrated its attention. These 'least developed' countries, it is argued, need special aid measures.

The UNCTAD Committee on Development Planning has identified 25 countries - 16 in Africa, 8 in Asia and 1 (Haiti) in Latin America - as being 'least developed'. Three main criteria have been used; per capita GDP of $100 or less, 10% or less share of manufacturing in GDP, and a literacy rate of 20% or less among the adult population. A fourth criterion, that of 'economic size' was also used in marginal cases, and it is on this ground that India, for example, is excluded from the list. Measures which might be used to help the 'least developed' generally envisage an increase in the volume of aid and technical assistance directed to them, including in particular the establishment of a Special Fund for the least developed countries. This latter is likely to be opposed by donor countries in favour of bilateral or co-ordinated measures to make aid to the least developed more efficient, including the provision of more technical assistance.

To some extent, the 'least developed' issue can possibly be seen as a political counter in favour of African states against the Latin American and East Asian group which have so far been the main beneficiaries of the General Preference proposal. If it is a political counter, it should be recognised as such. There is room for argument about whether the aggregative approach taken by UNCTAD in lumping together 25 rather arbitrarily chosen countries (which do not necessarily suffer from the same problems) is the right one to take. If it is a question of assessing the problems of particular countries, the UN's country programming system, which involves an individual view of each country's particular problems, might provide a better starting point than the creation of an arbitrary, and rather questionable, classification.

Conclusion

The third UNCTAD comes at a time when the meaning of 'development' and the roles of trade and aid are increasingly being questioned; and when genuine differences of opinion and interest are becoming apparent among the 'Group of 77' countries. This could be taken as a sign of weakness, if it is accepted that all developing countries must band together to pressurise the developed world for better terms. But it is questionable, in any case, whether this solidarity has in fact achieved much; and it may be argued that the countries of the Third World could bring more effective pressure on the West by forming smaller groups with specific common interests, on the model of OPEC. In the meantime, the confrontation remains.

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