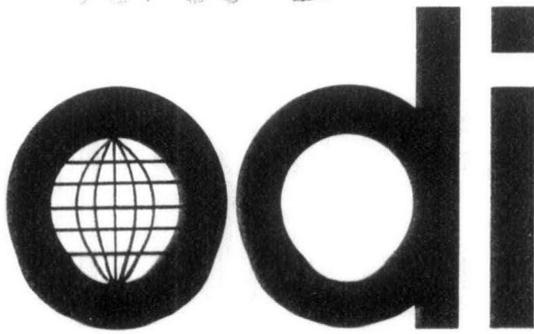


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## Briefing Paper

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### UNCTAD V: A PREVIEW OF THE ISSUES

Between 7 May and 1 June 1979, high-level representatives of 156 countries will meet in Manila at the fifth Unctad conference. This briefing paper sets out the issues that will be discussed in Manila and puts them in the context of the wider North-South debate.

Unctad (United Nations Conference on Trade and Development) was established in 1964 as an organ of the UN General Assembly, and was widely regarded by the developing countries (ldcs) as a forum that was more sympathetic to their views than the existing international economic agencies. One result of this and of Unctad's very wide remit has been that its periodic conferences, held every four years or so, have become occasions when the ldcs state their demands for changes in the world economic system, to which the developed countries (dcs) then react. This confrontational approach has been tempered by the practice of seeking consensus resolutions.

Unctad V will take place in the shadow of its predecessor, Unctad IV, held in Nairobi in May 1976, and comparisons between them are inevitable. At the time, Unctad IV was regarded by many as a disappointment. However, as more time has elapsed the Nairobi conference has come to appear relatively successful due to a particular set of factors that are no longer present in 1979. Whether they have been replaced by other positive influences that will also promote a constructive outcome to Unctad V remains to be seen.

A root cause of Unctad IV's success was undoubtedly the oil price rises of 1973, which encouraged many ldcs in the belief that similar gains could be made through cartels formed by the producers of other commodities, and which startled the dcs into a reappraisal of their economic relations. A belief that it was possible to make major changes in the world economic system by consensus decisions was fostered at the Commonwealth Prime Ministers' Conference held in Kingston in 1975, at the seventh special session of the UN General Assembly later the same year, and at the Paris Conference on International Economic Co-operation (CIEC – known colloquially as the North-South dialogue) which began in December 1975 and reconvened after Unctad completed its deliberations. The dcs were particularly encouraged by the cordial atmosphere in which the seventh special session had debated many of the items on the Unctad IV agenda. This cordiality was in marked contrast to the confrontation at the sixth special session the previous year, and the dcs wanted to ensure that Unctad IV took place in the same atmosphere and did not prejudice the subsequent CIEC debates.

For their part, the ldcs had within their programme a number of specific proposals that had been aired and researched over several years not only inside the Unctad Secretariat but also by other international agencies, notably the World Bank. Foremost among these were three proposals: an integrated programme for commodities, with a common fund as a cornerstone; a reduction in the burden of debt on some ldcs; and rules to govern the transfer of technology from rich to poor countries.

The disappointment immediately after the conference ended was the natural sequel to the high optimism with which it had begun. Nonetheless tangible gains were made. In particular, the conference agreed to start negotiations on a common fund, and the dcs agreed that they would consider ldc debt problems; there was also some agreement on a code for the transfer of technology.

The arguments on debt and the common fund have been dealt with in Briefing Papers No 3 1978 *Debt and the Third World* and No 4 1978 *Whither the Common Fund?* A number of dcs have cancelled or revised the terms of loans made to the poorer ldcs, and agreement was reached in March 1979 to set up a common fund (although the institution in its present form bears only a faint resemblance to the creature originally proposed in 1976). No clear decision has been taken concerning the legal basis of a code for the transfer of technology, even though a good deal of substantive agreement has been reached on the code itself, and this item reappears on the Unctad V agenda.

### Preparations for Unctad 5

The layman is not helped to understand what goes on at Unctad by the arcane titles adopted by the various country groups. Officially there are four groups of countries at Unctad: Group A – roughly the ldcs of Asia and Africa; Group B – the developed market economies; Group C – approximating to Latin America; and Group D – the socialist countries of Eastern Europe. However, of these four titles, the only one that has much currency in accounts of Unctad proceedings is Group B. This is because the eastern European countries play little part in Unctad conferences and because Groups A and C tend to join together under the banner of the Group of 77 (G77), a body which once had 77 members but now has 117. Hence the debates at Unctad are frequently described as being between Group B on the one hand, and G77 on the other.

\* The Institute is limited by guarantee.

Of these two groups, G77 have made the most public preparations for Unctad V. They met at Arusha during 6-16 February 1979 to co-ordinate strategy. There are of course conflicts of interest between the G77 members, but at Unctad IV they were able to present a united front partly because of the optimism engendered by Opec's price rise, but also because their package of proposals taken as a whole included measures benefiting most members, even though individual items would have had an adverse effect on some ldc's.

One important question to ask about the Arusha meeting, therefore, is whether it holds out a promise of similar unity at Unctad V. The debates at Arusha revealed a clear difference of interest between middle income countries plus India on the one hand and many of the poorer countries on the other. Nonetheless, compromises were achieved: some Latin American states initially opposed African proposals on the common fund, and also held a different position on technology transfer, but in both cases a common position was hammered out. One possible indicator of G77 unity at Unctad V is their recent performance at the on-going multilateral trade negotiations in Geneva, where they have stood firm against dc demands to make Article XIX of GATT selective<sup>1</sup>. It is probable, however, that regional groups, like those associated with the EEC under the Lomé Convention, will guard jealously their existing preferences over other ldc's.

The Group B countries have not engaged in the same public preparations for Unctad V, but the issues to be raised have been aired in various fora. There has been pressure from the European members (opposed to some extent by the USA) to have outstanding north-south issues, such as the common fund, tidied up before Manila in order to avoid a hostile atmosphere. Britain in particular has taken some pains to foster a cordial atmosphere because it made a rather poor public impression at Nairobi. The present Minister of Overseas Development wrote in 1976 (when she was not in office) about the British position on the common fund that 'We fought a niggling rearguard action against it . . . giving ourselves a bad reputation in the third world as a whole'<sup>2</sup>. Whether this desire to emerge from Manila in a better light will translate itself into real action only time will tell. However, the decision to hold a General Election on 3 May severely reduces the chance that the British delegation will be able to take or agree to any important new initiatives.

An Unctad conference is a political event, and should develop in a way that reflects the political environment in which it is held. There is no reason why one conference should necessarily resemble the others in approach. There are three archetypes of different kinds of conference, and although Unctad V will probably be a combination of all three it may tend towards one rather than the others. The first is a conference that agrees (at least in principle) a range of practical, modest changes in the international system. The second is one that focuses on a more limited number of broader issues and establishes a basis for detailed negotiations over the next three or four years. Thirdly it can develop into a simple exchange of views; a sort of high-level seminar. The prospects for Unctad V to tend towards the first type of conference depend upon the nature of the practical issues that it will be considering.

<sup>1</sup> See ODI Briefing Paper *The Tokyo Round and the Developing Countries* September 1977.

## The Issues

There are two threads running through many of the issues before Unctad V. One (the political theme) concerns the distribution of power within the organisations regulating the world economy, while the other (the economic theme) concerns changes in the mechanics of the world economy. It is important to distinguish between them because their prospects for success are very different. It is much easier to devise proposals that benefit both dcs and ldc's when considering the economic theme of each issue than when the political theme is uppermost.

Of the specific issues likely to be discussed at Manila, the most important are: protectionism in dcs and the need for structural change; trade in commodities and manufactures; aid and international monetary reform; technology; shipping; and economic co-operation among developing countries.

## Protectionism

Both the Unctad secretariat and G77 have signalled that in Manila they expect to air their concern at the increasing protectionism in dcs. Whether it will be possible to achieve anything more positive than a general session of complaints, such as specific proposals for dc adjustment policies, is open to considerable doubt. Nonetheless the issue is an important one for Unctad V because it is likely to colour the atmosphere and impinge on many of the more specific debates, particularly now that the common fund has been removed as a source of friction. One focus for attention will be the G77 desire to phase-out non-tariff barriers to the manufactured exports of ldc's, and in particular their dislike of voluntary export restraints and 'orderly marketing arrangements'. Behind the desire is a belief in the need for structural change in the international division of labour (the economic theme), and a view that the present institutional framework governing international trade relations is inadequate (the political theme). The outlook on both counts is gloomy. Although dcs pay lip service to the concept of international comparative advantage the commitment to adjustment measures that facilitate the transfer of some industries from dcs to ldc's tends to be weak, particularly in the present politico-economic climate. It is even harder to conceive of changes in the institutional framework which are perceived to be in both sides' interests. Essentially the ldc's want more power either inside GATT or by extending the responsibilities of Unctad, and they can only increase their power at the expense of the dcs. This is not to argue that the ldc case is a weak one, only that it is likely to meet strong dc resistance. One proposal is to establish an Unctad surveillance system to monitor protectionist trade measures (and hence encroach on the portfolio of GAAT) dcs will probably oppose this.

## Commodities and Manufactures

Following the agreement on the common fund, discussion on commodities is likely to focus on the formation of international commodity agreements (ICAs) to give teeth to the common fund, on compensatory finance, development of local processing, and increasing producer control over marketing and distribution. It is important that new ICAs are created, and some dcs, including Britain, agree that it is in their interests that this should happen (although USA has until recently tended to be less favourably disposed

<sup>2</sup> 'UNCTAD IV - The Pity of It', Judith Hart, *Socialist Commentary* July/August 1976.

towards them). However, the creation of an ICA is a slow and detailed task, unsuitable for and outside the competence of Unctad.

More success is likely on compensatory finance. The Germans in particular favour an expansion of compensatory finance, partly as a counter to pressure for commodity price stabilisation. ODI Briefing Paper No 1 1979 *Compensatory Financing to Stabilise Export Earnings* deals with the objectives of compensatory financing and explains the scope of the two existing schemes: the IMF Compensatory Financing Facility, and STABEX. Much recent discussion has been in the context of STABEX but the focus at Manila is likely to be on the IMF facility: the G77 want compensation to be on softer terms and to involve less IMF scrutiny of their domestic economic affairs; they have also proposed a new compensatory finance facility outside the IMF to be limited to ldc's. Given the dc determination that Unctad should not encroach on the territory of other international organisations, the Manila conference is unlikely to produce a firm proposal, but it could throw up recommendations to be pursued elsewhere.

As with the protectionism issue, the development of local processing and increasing producer control of marketing and distribution are more likely to be the subject of general complaints from G77 than of practical proposals. Although progress has been made to increase local processing of some raw materials, others face a complex network of mutually reinforcing barriers. For instance, as the degree of processing of a product increases so does the tariff it faces. For some commodities, such as coffee, fish, iron, manganese, phosphates, rubber, and tobacco, over 80% of exports are in raw form. Group B governments could if they were so inclined (which they probably are not) make concessions on tariff and non-tariff barriers to local processing. On marketing and distribution, however, there is little they could do even if the political will to help the ldc's existed since this is not, in the main, a government activity.

The debate on trade in manufactures will be coloured by the multilateral trade negotiations at Geneva. The G77 believe that their interests have not been given adequate attention, and that they have simply been presented with a *fait accompli* by the two main negotiating bodies, the EEC and USA. The political theme is therefore likely to become important in the debates, with moves to give Unctad greater responsibilities for policing and restructuring world trade. The political theme is likely to be particularly obtrusive since there are few practical proposals coming before the conference. The need to remove restrictive business practices prejudicial to ldc interests is likely to be debated, but since the subject is already due to be considered by a UN Conference on Restrictive Business Practices (September 1979 – April 1980), it is unlikely that any major breakthrough will occur at Manila. Another specific issue is the Generalised System of Preferences (GSP) in which Unctad has a particular interest since the scheme was negotiated under its auspices. Implementation began with the European Community's scheme in 1971 and there are now 24 preference-giving nations and 130 countries which benefit from it. The initial ten year period of operations expires in two years time, so Unctad V can be expected to debate the issue and perhaps produce proposals for extending or otherwise changing it in the 1980s. However, firm decisions are unlikely.

## Money and Finance

There is optimism in both G77 and Group B that this agenda item could prove the most fruitful of the conference. Nonetheless, there appears to be a wide gap between the positions of the two sides, which partly reflects the difference between the political and economic themes. The level of official development assistance (oda) will be discussed under this head, but is unlikely to provide any fireworks. The G77 will complain at the low level of oda, especially from USA, Germany, and Japan and some dc's may choose Manila as the occasion for making public a policy change on oda, but apart from this Unctad V is not expected to produce anything major. Instead, the main focus will be on new international lending facilities and on whether or not they should be located in the IMF; there will also be a proposal from G77 to establish a new international commission on debt. The G77 want an international organisation to provide an export credit guarantee facility which would offer to ldc's the assistance currently given to dc exporters by their own national organisations. This is seen as a means for increasing ldc exports both to dc's and, of particular interest, to other ldc's by making them more competitive. The G77 have also proposed that there should be a source of medium term finance to supplement the loans from private sources that are becoming increasingly important for middle income ldc's. The position of Group B countries is that there certainly exist areas where international financial arrangements could be improved and, although they have reservations about the precise new facilities proposed by the G77, this is an area where some fruitful discussion could occur. However, there is much less sympathy for the linked G77 demand for 'a genuine and fundamental reform of the international monetary system' and an 'equitable decision-making process in the Bretton Woods institutions. There will be a similar reluctance to agree with the G77 proposal for an international debt commission comprising 'eminent public figures with recognized knowledge and experience of debt problems in economic development',<sup>3</sup> with the task of examining the debt problems of individual countries and recommending measures to deal with them. Both proposals are designed to increase ldc power in international financial decision making, and are criticisms of the IMF and the Paris Club (which deals with debt).

## Technology, Shipping and ECDC

These are the other main items at Manila. The transfer of technology was raised at Unctad IV but the critical issue of whether or not an internationally agreed code of conduct should be legally binding remains unresolved. The G77 argue, persuasively, that if it is only voluntary it will be ineffective; Group B retort, equally persuasively, that a legally binding code is not politically feasible and would tend to reduce the flow of investment to ldc's. Although Unctad has set itself the task of defining 'a comprehensive package of measures necessary for achieving the technological transformation of developing countries in the shortest possible span of time', no breakthrough is likely at Manila.

The prospects for shipping are much brighter but, paradoxically, also tend to downplay the role of Unctad V. The conference will focus on the code of conduct for Liner Conferences which contains specific provisions for increasing the proportion of trade carried in ships belonging to ldc's. The code was adopted in April 1974,

<sup>3</sup> *Unctad V – Arusha programme for Collective Self-Reliance and Framework for Negotiations* pp 52, 54

but has not yet come into force since it has not been ratified by the requisite number of states. The European Community is expected to ratify soon, however, whereupon the code could come into force. As with the Common Fund, therefore, a potential source of friction could be removed by last minute action from Group B countries.

The acronym ECDC stands for economic co-operation among developing countries. G77 say they want more of it, and they want Unctad to help. Group B say they think it is a good idea, but do not want their contributions to Unctad coffers to be spent on something that concerns Idcs alone. Thus, the debate at Manila is likely to be less about the merits and practicalities of ECDC than about the budgetary provisions within Unctad. The issue is therefore likely to tie up with the more general attempt by the Unctad secretariat to increase its resources, which is likely to meet Group B opposition on the grounds both that they do not want to spend more, and that they do not want Unctad to trespass in the vineyards of GATT and IMF.

### The overall perspective

The prospects that Unctad V will be a conference of the first type, producing agreement on a range of practical changes, are thus not very good. What success is likely for the second type: a conference that agrees in principle on a broad programme for action over the coming years? Provision has certainly been made for

the conference to develop in this way. After electing officials, adopting the agenda and other technical issues, the debate at Manila will begin with item 8: an evaluation of the world trade scene which is so comprehensive that its title on the agenda runs to eight lines. This debate will set the scene for the subsequent discussions, but it may well bring out forcefully the very wide difference of approach between Group B and G77. The former see item 8 as an occasion to explore with the Idcs the interrelationships in the world economy, to take stock on the past two development decades, and to map out in very broad terms the prospects for the 1980s; in short, a time for reflection and stocktaking. The G77 see item 8 very differently. For them it will be an opportunity to point to the breakdown of the Bretton Woods system, to the gathering crisis of the world economy, and to the need for fundamental change in the structure of the world system and in the power sharing arrangements within it. This suggests that both sides want to discuss future action but that as they come to Unctad V they may be focussing on completely different themes.

The gloomy conclusion is that the Manila conference will not be noteworthy as a forum either for agreeing practical reforms, or for focussing on broad themes, but that in the absence of the necessary groundwork or agreement for either of these it will tend towards the third type of conference: a high-level seminar. Such an exchange of views can be helpful, but in view of the very real dangers facing the world economy it will be sad indeed if Unctad V is no more than a talk shop.

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