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UNCTAD VI: BACKGROUND AND ISSUES

The sixth UN conference on trade and development in Belgrade, 6-30 June 1983, is held against the background of earlier UNCTADs which have substantially failed to resolve many of the disagreements between the developed and developing countries (ldcs), and of a world economy in its worst recession since the early 1930s. This paper summarises the present state and prospects for the developing countries, surveys the issues likely to predominate and examines the probable negotiating positions of the participants.

The background

World economic trends have continued to move strongly against the ldcs since UNCTAD V in 1979. The further slowdown in the growth of rich industrialised countries has caused a steep fall in the prices of primary commodities which constitute the principal exports of many of the non-oil exporting developing countries. Thus, during 1982, commodity prices measured in real terms fell to their lowest level since the mid 1940s. The IMF index of real commodity prices (excluding oil) by the end of the year, stood at 75% of its 1975 level. Over the period 1980-82, the ldcs as a group suffered a loss in commodity earnings of about $21bn, relative to their forecasted earnings if volumes and prices had maintained their 1979 levels. Forecasts are for some upward price movement during 1983, but it will take a major sustained recovery of the industrialised nations (at growth rates greater than those currently forecast) for 1979 price levels to be restored.

The growth of demand for manufactures of the newly industrialising countries fell further so that, combined with reduced commodity demand, ldcs' export growth stagnated in 1982. With the depletion of their foreign exchange earnings, there was a substantial cutback on imports of essential capital goods with further consequent adverse effects on growth rates. This was compounded by the slowdown in international bank landing after several large borrowers ran into difficulties. [1] The recent fall in oil prices will permit increased growth and partly alleviate balance of payments difficulties — although it will place increased strain on the debt servicing capacity of some heavily indebted oil producers. Thus UNCTAD VI takes place against a background of resumed but hesitant growth in the world economy, with the major problems of debt and reduced export earnings still unresolved.

The outcome of previous UNCTAD meetings is summarised in the Box. In the time leading up to Belgrade, the participants will begin to finalise their negotiating positions. Indications of the South's probable negotiating stance began to emerge at the summit of the non-aligned movement held in New Delhi (March 1983). The discussions and the final communiqué again emphasised the South's longstanding pressure for fundamental changes in the world economy to create a New International Economic Order (NIEO). However, in contrast to past summits, more emphasis was placed on negotiating for measures to alleviate the problems of debt, finance and reduced export earnings. The proposal for a change in emphasis was spearheaded by India and Yugoslavia, while Algeria led the more radical members. (Algeria gave the impetus to the NIEO at the non-aligned summit in 1974.) This follows from the recognition that the deepening of the recession since 1979, and the trend in the North towards strongly anti-interventionist governments (except in increasing trade protection for their own industries) has further weakened the South's ability to negotiate for a NIEO.

An important pre-conference event is the Group of 77 (G77) meeting (held this year in Buenos Aires, 28 March-9 April). The G77 now has a membership of 117 ldcs, and within it the South attempts to formulate a common negotiating position vis-à-vis the North. [2] The course of this year's meeting was set by the New Delhi summit which meets at a more senior level than G77. Again, the resolution while emphasising the NIEO, focuses on immediate action. The change in negotiating emphasis is supported by the UNCTAD Secreteriat, and this is reflected in the policy papers prepared for the conference.

As regards the position of the developed market economies, significant differences exist between the European nations (particularly as expressed through the EEC) and the USA. The USA opposed adoption of the provisional agenda for UNCTAD VI in July 1982, thus it was adopted only by majority vote and not by general consent as was hoped. The US position is that UNCTAD should be a forum for the exchange of views only, and that the conference's ability to mandate for action should be downgraded. Thus it takes the position that those issues such as protectionism and finance which are already covered by the specialised agencies such as GATT and the IMF should be pursued though those separate bodies. (The South has argued that the North's voting majorities in institutions such as the IMF effectively decreases their power to change policies.) The EEC and Japan are more willing to see action pursued through UNCTAD, although on issues such as trade they have tended to align with the USA in arguing that GATT has greater specialisation to deal effectively with this issue. Nevertheless, the USA has indicated that it is willing to establish a joint negotiating position for the conference.

The issues

Given the recent trends in the world economy, discussion will centre on the issues of: finance and adjustment, commodity price stabilisation and trade.

Commodity and trade issues

Since the Integrated Programme for Commodities (IPC) which was proposed at UNCTAD IV (see Box), has not been enacted and given the severe effects of the fall in commodity prices, UNCTAD has now put forward an Immediate Action Programme (IAP) on commodities. This is a less wide-ranging programme than the IPC as the IAP concentrates purely on stabilising and raising commodity prices, whereas the IPC put forward proposals for changes in the control over distribution and technology involved in commodities. The IAP is considered a short-term measure to allow the present crisis to be dealt with in an orderly fashion before the IPC is implemented.

Thus, the IAP's main objective is to maintain prices within a target range. The target range would be given by agreements already obtaining for some commodities, the remainder would be set in an average range for 1971-82. For this purpose it is proposed to establish buffer stocks and to use supply management measures such as reduced production. As an illustrative example, UNCTAD's rough preliminary estimates put the value of the required supply offtake from the markets of 15 major commodities over a three-year period, at $9bn (in constant 1981 dollars). Initial estimates show that if the IAP were successful then the attainment of the target prices should raise export earnings of the group of producing countries by $20bn over three years. This increase in earnings is more than double the value of the supply offtake, and the estimated net gain would make up nearly half of the foreign exchange lost over the last two years.

Thus for the IAP a series of interim agreements are envisaged to cover stocking and supply management measures for each commodity. These agreements would operate within the framework of existing international commodity agreements, or by ad hoc agreements between producing and consuming nations, and would be terminated as soon as market conditions allow. The proposal envisages that when the Common Fund is established it should provide about half of the finance, with the remainder coming from an enlargement of the IMF's facility for the finance of buffer stocks and levies on commodity sales.

The principal problem, therefore, with the IAP is the same as that for the broader IPC — namely obtaining a sufficient commitment of money for the Common Fund. The Common Fund agreement has not yet been ratified by the required number of countries — including a number of ldcs. The UK committed itself to ratification of the agreement after the Cancun Summit in September 1981, but the USA has been unwilling, and the present US administration is unlikely to ratify.[3] The USA has a greater independence in commodity supplies than its competitors and its multinational corporations hold strong positions in the commodity markets. Thus in the renegotiations on tin and cocoa, the USA finally decided not to enter the agreements. The USA has also been opposed to any market stabilisation measures within the cotton market and thus the creation under IPC auspices of an agreement on cotton has been blocked. The EEC and Japan which have a greater dependence on imported commodities, have generally taken a more favourable approach to stabilising these markets (although the UK has been closer to the US position). Preliminary indications are that the EEC is favourable to some measures being taken to help the worst hit low income producers. Stabilisation, particularly of metal prices, could prove to be of interest to the North in preventing a resurgence of inflation if the present economic upturn is sustained.

UNCTAD has separated out from the IPC measures dealing with the long-term restructuring of commodity markets and put these into a separate package of proposals distinct from price stabilisation. The main part of the package comprises policies designed to increase the processing of primary products within ldcs themselves, and to reduce dependence on transnational corporations for the marketing of commodities. A key requirement for this programme is a proposal that developed countries pledge not to discriminate against ldc imports of processed goods (by systems of escalated tariffs) and that they set quantitative targets for raising their share of processed imports (including manufactured goods) from ldcs.

Additional proposals on trade include pressure for a freeze on further protectionist measures against ldcs, and in particular to turn the general declaration made at the November 1982 GATT meeting into a binding agreement to freeze protectionist measures. The ldcs will once again press for UNCTAD to have some powers to survey and police protectionist measures; the North will again probably emphasise that this is the role of GATT. The EEC has indicated a willingness to encourage South-South trade, and measures for this may be given concrete financial help.

Finance and adjustment

UNCTAD VI will, as at previous conferences, include discussion on the general reform of the international monetary system — in particular, of the South's longstanding call for ldcs to be given a greater role in the decision making of the IMF. However, given the indications of a change in emphasis within G77, then debate will centre on policies which can be quickly implemented to deal with the immediate problems of finance.

In a study prepared at the end of 1982 for the conference, the UNCTAD Secreteriat has drawn up an emergency finance programme to act for two years. UNCTAD calculated that at least $70bn would be required to restore the ldc reserve position to the level prevailing at the end of 1978 and to provide the additional imports required to renew growth. This figure has now been revised upward to $90bn, and presumes that growth rates in the developed market economies will rise and that interest rates will fall. The second Brandt Commission report,[4] whose proposals on finance will also provide a focus for debate, puts the figure at $85bn (other estimates put the amount required at over $100bn).

The specific UNCTAD proposals to meet this target are centred around the multilateral institutions. UNCTAD proposes that IMF quotas[5] should increase by at least 100%, with the ldc share in total quotas being increased substantially. This proposal was first made by the ldcs at the IMF/World Bank meeting in September 1982, and it is also a recommendation of the Brandt Commission. It is also proposed that the next round of special drawing rights (SDRs) allocations should be agreed immediately, with the size of the increase being at least $30bn over the two years of the emergency programme. Further to this, it has been proposed that the developed countries should cede or lend some their allocations back to the IMF, which could then channel those funds to ldcs.

The developed countries may argue that the increase in IMF quotas by nearly 50% and the extension of the General Arrangement to Borrow (GAB) to ldcs agreed in February is sufficient to overcome the shortfall in finance.[6] This will almost certainly be the US position, since even the US contribution to this latest increase in IMF resources is facing difficulties in Congress. The Europeans, however, may in principle be willing to agree to further measures since at the February meeting they favoured an increase greater than 50% and they persuaded the USA to move from its initial position of only a 40% increase.

Other proposals in the emergency programme include UNCTAD proposals that over the two-year period, the IMF should sell a 'significant proportion' (to be agreed upon) of its gold stock — the proceeds of this sale then being lent to the least developed countries at a nominal rate of interest. Also, funds available via the IMF's compensatory financing facility (for falls in export earnings) should be enlarged — the amount to be decided by a full review (the Brandt Commission has proposed a tripling of these resources).

It is proposed that the lending programme of the World Bank which is currently expected to amount to $60bn over the five-year period up to 1986, should instead be spent at a faster rate over four years. Finally, it is proposed that the World Bank should be enabled to increase the percentage of structural adjustment loans in its total lending (this the World Bank has now done) and that the conditionality of such lending be examined. (It is similarly proposed that the conditionality of IMF finance should be examined.)

The major obstacle to the expansion of World Bank funds is the reluctance of the USA, the largest contributor, to commit further money. Thus the World Bank's concessionary lending arm, the International Development Association (IDA) is facing a sharp reduction in its programme lending — the sixth IDA programme from 1981-83 has fallen short of its $12,000m target by $3,000m. The US Congress has refused to release all the funds agreed under IDA-6, and is showing little sign of voting the necessary money for IDA-7 (due to begin July 1984). Thus, unless there is a swift change in US attitudes, then the prospects for maintaining the volume of World Bank finance (let alone increasing it substantially under UNCTAD proposals) are bleak. The rest of the North will find it politically and financially difficult to make up the shortfall in US funding. Diplomatic pressure (in particular by the UK which last year took the initiative in pledging extra funds for IDA) may be extended from maintaining IDA to consideration of the UNCTAD proposals, but it is unlikely to be successful.

The South may be successful in obtaining some extra finance from other sources — such as a limited IMF gold sale. In addition, there are several schemes being floated by the international banks for the IMF and/or World Bank to borrow from the banks and international bond markets and then to lend these funds to ldcs. Such schemes will be discussed in Belgrade, and some limited measures possibly taken.

On the issue of finance there is more scope for compromise than on commodity schemes, since the exposure of the Western banks to possible default has been highlighted in the past year. However, the UNCTAD proposals are mainly aimed at resolving the finance problems of the very poorest ldcs, whilst the debt problems have occurred among the large middle income borrowers. Hence, it is possible that if the North feels confident that the loans to these countries can be successfully rescheduled, then they will not agree to the UNCTAD schemes. In addition, there is a potential split within G77 between the low income ldcs, whose principal financial sources are the multilateral institutions, and the middle income borrowers (mainly the Latin American countries) who aim to secure further bilateral loans (principally from the USA, which is also encouraging international banks to keep up their loans to these borrowers).

One area where individual action by developed economies is possible, is in response to UNCTAD's proposals on official development assistance (oda). Thus at Belgrade, pressure will be put on the developed countries to implement their commitment (first made at UNCTAD II in 1968) to increase their oda to the 0.7% target of GNP.[7] The South will press for a series of interim targets (possibly with dates) for oda. Particular attention will be directed at the suggested scheme whereby those ldcs suffering a particularly sharp deterioration in their terms of trade could have their payments on official government and officially guaranteed loans and export credits either waived or the repayment period extended.

Conclusions

Although economic recovery in the North and the macroeconomic policies of Northern governments are not directly an UNCTAD issue, they nevertheless underpin the possibilities for implementation of UNCTAD proposals. The Secretariat itself has emphasised that the South has suffered not only from the North's recession, but also from many of the policies that the North (with exceptions) has implemented to deal with that recession. Thus resource flows to the South have been constrained, interest rates have been raised affecting Southern debts, protectionist measures have been introduced and the demand for commodities has stagnated.

Of importance in indicating the North's stance on these issues will be the meeting of leaders from seven of the major developed market economies at Williamsburg, beginning 28 May. It is probable that, as at previous summits, most of the participants will re-emphasise the need to prevent a resurgence of high inflation rates and interpret this as requiring a degree of monetary and fiscal restraint which would make it politically difficult to commit large scale resources to the problems of the South. Further, their attitude to the UNCTAD proposals will be coloured by the emerging upturn in the world economy— there could thus be an associated over optimism that the major problems will diminish.

However, both the emphasis on the inflation target

UNCTAD: A brief history of the conferences

UNCTAD I (Geneva 1964)

In response to developing country (ldc) anxiety at their worsening position in world trade, the General Assembly voted for a 'one off' conference. These early discussions paved the way for new IMF facilities to provide finance for shortfalls in commodity earnings, and for the Generalised Preference Schemes which increased access to Northern markets for manufactured imports from the South. At Geneva, the ldcs were successful in their proposal for the conference with its Secretariat to become a permanent organ of the UN, with meetings every four years.

UNCTAD II (New Delhi 1968)

The conference provided a major impetus in persuading the North to follow up UNCTAD I resolutions, in establishing generalised preferences. The target for private and official flows to ldcs was raised to 1% of the North's GNP, but the developed countries failed to commit themselves to achieving the target by a specific date. This has proven a continuing point of debate at UNCTAD conferences. The conference also led to the International Sugar Agreement, which seeks to stabilise world sugar prices (so far unsuccessfully since a major producer, the EEC, has not signed the agreement).

UNCTAD III (Santiago 1972)

Discussion centred on the international monetary system, and specifically on the South's proposal that a higher proportion of new special drawing rights (SDRs) should be allocated to ldcs as a form of aid (the so-called 'link'). In Santiago, substantial disagreements arose within the Group of 77 (G77) despite pre-conference meetings. There was disagreement both over the SDR proposal and between those within G77 who wanted fundamental changes, such as a change in the voting allocations in the South's favour at the IMF, and those (mainly the Latin American countries) who wanted much milder reforms. This internal dissention seriously weakened the Group's negotiating position, and led to a final agreed motion which recommended that the IMF should examine the link and that further research be conducted into general reforms. This avoided firm commitments to act on the 'link' or general reform, and the motion was passed by conference.

UNCTAD IV (Nairobi 1976)

The perceived failure of UNCTAD III led to much more determined preparation by G77. In addition, the success of the OPEC cartel suggested to other ldcs that they had increased bargaining power against the North. The South's perception of new power was shared by the North, since OPEC's action seemed to demonstrate that commodity power was credible. The stance was also taken, following the General Assembly's call for a New International Economic Order in 1974, that the entire range of economic issues should be negotiated together rather than separately. In response, the principal result of the conference was the adoption of the Integrated Programme for Commodities. The programme covered the principal commodity exports and its objectives aside from the stabilisation of commodity prices were: 'Just and remunerative pricing, taking into account world inflation', the expansion of processing, distribution and control of technology by ldcs and improved access to markets.

International Commodity Agreements (ICAs) have been concluded for cocoa, coffee, sugar, tin, rubber and jute. The first four had been covered by other agreements and were negotiated under the ICAs, the rubber and jute agreements are entirely new. These agreements were unable to prevent the substantial price falls over the 1979-82 period (prices have now partly recovered). A major obstacle to implementation is that the agreement to finance the buffer stock arrangements by means of a Common Fund has not yet been ratified by the required number of countries.

UNCTAD V (Manila 1979)

Although, the second round of major oil price increases and a brief boom in other commodity prices had given confidence to the South, the North now saw oil as a separate case. Resolutions were passed for UNCTAD to monitor protectionist trends, but the resolution maintained GATT as the main forum for liberalising world trade. The South's proposals on curbing the conditionality of the IMF's loans was rejected. Discussion also centred on increasing the share of the ldcs in world shipping — however, this ended in deadlock. Nothing substantial came out of the conference.

and the best way of achieving it, are the subject of much dispute. Consequently there is a range of opinion[8] which regards government induced reflation as essential if the industrial countries are to return to strong growth, with beneficial 'locomotive effects' for the South. Before Williamsburg and at Belgrade, the South will be pressing this point and will emphasise that an important component of an internationally co-ordinated reflationary programme could be an expansion of multilateral finance to the South combined with commodity schemes to raise export earnings, both sources of finance then being spent primarily on exports from the North. Thus UNCTAD VI will be strongly influenced by the deterioration in the world economy since UNCTAD V.

With regard to implementation of the NIEO, the developed and developing countries have tended to 'talk past' each other. Given the South's probable emphasis at UNCTAD VI on pragmatic solutions to immediate problems, and given their willingness to split issues such as commodities down into packages to be negotiated separately, then there is more potential for negotiated compromise. However, whether the conference will yield resolutions which bind the participants to act on the major proposals depends to a large degree on the North's stance (in particular that of the USA). Should no such resolutions be passed, the conference will (as with previous UNCTADs) at least keep development issues within the ambit of international negotiation, and continue to act as a powerful pressure for economic change in favour of the developing nations.

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[1] These problems are discussed in detail in 'Developing Country Bank Debt: Crisis Management and Beyond' ODI *Briefing Paper* No 2, March 1983 and in 'World Trade: Trends and Negotiations' ODI *Briefing Paper* No 3, May 1983.

[2] UNCTAD classifies the participants into four groups. Thus, Group A comprises mainly the less developed countries of Africa and Asia; Group B consists of the developed market economies; Group C is mainly Latin American; and Group D consists of the East European socialist countries. Groups A and C form the G77. The East European countries — with the exception of Yugoslavia — play little part in UNCTAD conferences.

[3] See 'The Integrated Programme for Commodities' ODI *Briefing Paper* No 1, July 1982.

[4] The Brandt Commission, *Common Crisis: North-South Co-operation for World Recovery*, Pan Books, February 1982.

[5] Quotas determine the extent of a member's ordinary drawing rights with the Fund, the member's access to the special Fund financing facilities, the size of a member's SDR allocation and the member's voting rights. Quotas are usually reviewed every five years.

[6] At the IMF interim committee meeting in February, agreement was reached to increase IMF quotas by 47.5% to $90bn. The GAB is an agreement between the Group of 10 industrial nations in the IMF to make funds available for each other's use. In addition, Saudi Arabia now contributes additional funds to the GAB.

[7] In 1981 the average ratio of oda to GNP was 0.32% for the developed market economies. Only Denmark, the Netherlands, Norway and Sweden reached or exceeded the target in 1981.

[8] For recent statements see, *Promoting World Recovery: a statement on global economic strategy*, issued by the Institute for International Economics, Washington DC, December 1982 and *OECD Economic Outlook No 32*, OECD, Paris, December 1982.