Overseas
Development
Institute

The Less Developed Countries in World Trade

Michael Zammit Cutajar
Alison Franks

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The Less Developed Countries in World Trade

This handbook is ODI's first venture into the field of trade. It is intended to present the reader with facts about the direction and composition of the export trade of the less developed countries, the policies of the major developed countries affecting this trade, and the work of the two international institutions primarily concerned with trade policies: the General Agreement on Tariffs and Trade (GATT) and the UN Conference on Trade and Development (UNCTAD). In describing current and proposed trade policies and institutions, the handbook also comments on some of the main issues raised.

The handbook represents an attempt to select and compile information which is already available from many different sources, some not easily accessible. We hope that the availability of this information in a single publication will be of use to those with an interest in the contribution of trade to development.

The authors are research officers of the Overseas Development Institute.

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A reference handbook

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List of Abbreviations

ASP	American Selling Price
BSC	British Sugar Corporation Ltd.
BTN	Brussels Tariff Nomenclature
CACM	Central American Common Market
CAP	Common Agricultural Policy (PAC)
CET	Common External Tariff (TDC)
CFA	Communauté Financière Africaine
CPA	Commonwealth Preference Area
CSA	Commonwealth Sugar Agreement
DOM	Départements d'Outre Mer
EACSO	East African Common Services Organisation
EAMA	Etats Africains et Malgache Associés
ECOSOC	United Nations Economic and Social Council
EEC	European Economic Community
EFTA	European Free Trade Association
EIB	European Investment Bank
FAO	Food and Agriculture Organisation
FED	Fonds Européen de Développement
GATT	General Agreement on Tariffs and Trade
IBRD	International Bank for Reconstruction and Development (World Bank)
ICCICA	Interim Co-ordinating Committee on International Commodity Agreements
ICITO	Interim Committee for the International Trade Organisation
ICO	International Coffee Organisation
IDA	International Development Association
IMF	International Monetary Fund
ITO	International Trade Organisation
LAFTA	Latin American Free Trade Association
LDC	Less developed country (see Appendix A)
LME	London Metal Exchange
OAS	Organisation of American States
OPEC	Organisation of Petroleum Exporting Countries
PAC	Politique Agricole Commune (CAP)
SBR	Styrene-butadiene rubber
SITC	Standard International Trade Classification
TDC	Tarif Douanier Commun (CET)
TOM	Territoires d'Outre Mer
UDEAC	Central African Economic and Customs Union
UN	United Nations Organisation
UNCID	United Nations Centre for Industrial Development
UNCTAD	United Nations Conference on Trade and Development
UNIDO	United Nations Industrial Development Organisation

List of Abbreviations Continued

c.i.f.	cost insurance freight	See Glossary of Terms
f.a.s.	free alongside	See Glossary of Terms
f.o.b.	free on board	See Glossary of Terms
n.e.s.	not elsewhere specified	

..	nil; or negligible in relation to table
—	not applicable

1 billion=1,000 million

Preface

The Overseas Development Institute has hitherto concentrated its studies on the flow of resources from rich countries to poor through official aid, and private investment. This study is our first venture into the field of trade.

In preparing the study and in the office seminars which have taken place on it we have all become convinced that the less developed countries could benefit enormously if they were able to participate more fully in world trade. This is not to say that we adopt the ill considered slogan 'trade not aid', but that we recognise how vital it is to have trade *and* aid.

The main instrument which the LDCs appear to have chosen to increase their participation in and benefit from world trade is the United Nations Conference on Trade and Development (UNCTAD) which originally met in Geneva in 1964 and is due to hold its second full meeting in New Delhi early in 1968. This study concerns itself primarily with the issues before UNCTAD, and attempts to elucidate the problems and policy decisions which the Conference is facing, and which could profoundly affect political and economic relations between the rich and the poor countries of the world.

We hope that this book will be of use to officials, commentators, and others who are interested in the rôle of trade in development.

WILLIAM CLARK
Director

1 Why Trade?

The purpose of this introductory chapter is to provide a simplified theoretical background against which the information in the rest of the handbook may be evaluated. It may be omitted by readers to whom economic theory is either familiar or incomprehensible. Briefly, it seeks to answer two questions: 'Is trade beneficial and, if so, to whom?' and 'Is trade the best means of assisting less developed countries to develop?'

Trade, Efficiency, and Rising Incomes

For a country to become richer, or less poor, it must increase its production of goods and services.[1] In order to raise production, it must be able to call upon resources of capital and productive and entrepreneurial skills. If these resources are not available domestically in sufficient quantity, they may be obtained externally, either through official programmes of foreign aid and technical assistance, or through foreign private investment and immigration, or through a combination of these factors.

Having assembled its productive resources, a country must utilise them so as to increase its national income. Social and political considerations may dictate that national income should be increased in such a way as to benefit directly certain areas of a country or certain groups of people. Obviously, there is no limit to the possible variations in economic policy which might be imposed for such reasons. Such considerations apart, however, the aim of a country's economic policy ought logically to be to maximise national income. To achieve this aim it must use its resources as efficiently as possible, so as to derive the highest possible returns from its investments.[2]

Specialisation

Efficiency in resource use is achieved by specialisation. This broad statement is perhaps best understood in relation to the individual working man. A man tends to work at the occupation for which he and his employers (or clients or customers) agree that he is best (or least badly) suited, by reason of his training, skill, character, and so on. By specialising in this way, the individual maximises his income and is able to exchange this income for goods and services which other 'specialists' have produced.[3] Thus, specialisation (or the division of labour) leads to the need for a

1. This assumes that it cannot look to a rise in foreign interest income or foreign transfers (e.g. from emigrants).
2. This is a highly simplified argument. Obviously, social and political considerations will always apply. However, maximisation of income is not *necessarily* incompatible with socio-political equity. The latter could be achieved by redistribution of income *after* it has been earned rather than by imposing policy restraints on investment decisions (e.g. policies aimed at encouraging or discouraging investment in certain areas or in certain types of industry).
3. Even if someone is not particularly well suited to any one occupation, it still pays him to do one job rather than many. Cf. 'comparative advantage', explained below.

market, in which goods and services can be exchanged to the mutual benefit of all producers.

The opposite of specialisation is self-sufficiency, whereby the individual produces all that he consumes, without relying on a market. Self-sufficiency is obviously inefficient, since a man must normally be better at producing some things than others. By trying to do everything at once, instead of concentrating on those activities at which he is more adept, the individual must inevitably bring about a reduction in his aggregate output and hence in his standard of living. Thus, although complete self-sufficiency and complete specialisation are probably unattainable extremes, it is safe to state that any move away from the former towards the latter would tend to raise productive efficiency and hence income.[1]

The preceding argument may seem so commonplace as to be hardly worth stating. However, it has far-reaching implications. The argument that the maximisation of income is achieved by specialisation and exchange applies not only to individuals but also to organised production units (e.g. factories, farms) which can achieve economies of scale through specialisation. Furthermore, if all the production units in a country are considered in aggregate, the benefits of specialisation can be seen to apply to the national economy as well.

To restate the argument at this latter level: a country wishing to maximise its national income through the efficient use of its resources must encourage its individual and corporate production units to specialise in the types of activity in which each is most efficient and to offer their products for exchange in a competitive market.[2]

Comparative advantage

It now remains to extend the argument for specialisation into the sphere of international trade. It is convenient for this purpose to use simple illustrative examples ('two-country models' in economic jargon).

Take first the case of two countries, say, Britain and Malaysia, and assume that Britain is the more efficient producer of cars and Malaysia of tin. It would be to the advantage of both countries for each to concentrate on the product in which it is more efficient and to supply each other's needs through trade, rather than for each to produce both tin and cars for its domestic market only. However, this example is too simple, since the dissimilarity between the production opportunities of the two countries is obvious.

Take another example of two countries with similar production opportunities, say, Britain and Switzerland, each producing watches and machine tools, and assume that Switzerland is the more efficient producer of both products.[3] It does not follow from this, however, that Switzerland should

1. Compare the standard of living of the 'self-sufficient' subsistence pastoralist in Africa with that of the 'specialist' car worker in Coventry.
2. A market is not essential; planning can replace it in theory. However, a discussion of the alternatives would lead into a field of academic controversy for which this book is not the appropriate place.
3. This, of course, is an imaginary example.

produce both and Britain neither. It can be shown that it would pay Switzerland to concentrate on the product in which its relative superiority over Britain is greatest and for Britain to concentrate on that in which its relative inferiority is least. In this way, trade would take place, as in the previous example, and both countries would benefit accordingly.[1]

The principle of specialisation according to relative efficiency is known as that of *comparative advantage*. According to this law of economics, there is always an incentive to specialisation and trade between countries, even when one country or group of countries may be shown to have an absolute advantage over all other countries in respect of every possible sector of production. Comparative advantage shows that even the least efficient producer can gain from trade.[2]

The case for trade

The case for trade, therefore, is that it provides the means for international specialisation along the lines indicated by comparative advantage and that in this way it contributes to increased productivity and higher incomes in the world economy. Furthermore, trade is a mutually beneficial exchange of goods and services from which both buyers and sellers gain. It follows from this that national policies should encourage trade and remove restrictions on imports and exports.[3]

It is worth emphasising the importance of imports in the above concept of trade. While comparative advantage indicates what a country should produce, it also indicates what it should *not* produce, i.e. what it should allow other countries to supply. Imports are the essential counterpart of exports. First, imports provide other countries with the means with which to buy a country's exports. Secondly, imports make available to a country a range of goods which it would otherwise have had to produce for itself at the cost of diverting resources from more productive employment. Cheap imports should therefore be welcomed and should not automatically be treated as 'unfair competition'.

Comparative Advantage and Economic Development

International specialisation is a means of maximising world income.

1. For example, assume that, for the expenditure of £x, Switzerland can produce *either* 2,000 watches *or* 40 machine tools (price ratio 1:50) and that, for the same expenditure, Britain can produce 1,000 watches or 30 machine tools (price ratio 3:100). Switzerland has an absolute advantage over Britain in both products but its advantage is comparatively greater in watches (2:1) than in machine tools (4:3).

If Switzerland devoted £x to producing 2,000 watches for export to Britain, it could exchange them in Britain for 60 machine tools at British prices; i.e. more than it could produce for itself by diverting the £x from watches to machine tool production. Similarly, Britain could exchange 30 machine tools for 1,500 watches at Swiss prices. Both countries would gain by specialisation.

This example assumes a constant price ratio in both cases, which would not be the case in practice. For a full explanation of comparative advantage consult an economics textbook, e.g. Paul Samuelson, *Economics*, McGraw Hill, 1964, Chapter 32, Appendix.

2. The law of comparative advantage must, of course, be qualified by the existence of substantial international transport costs; also by the strategic importance to some countries of maintaining domestic sources of essential supplies.

3. As a qualification of this conclusion, it must be stated that, if domestic economic policies which distort the pattern of comparative advantage are taken as given, there is a case for some regulation of international trade to offset these distortions.

However, it may not appear to be the best means of achieving a satisfactory *distribution* of income. Much obviously depends on the definition of 'satisfactory' in this respect but it is generally agreed that the present imbalance of wealth in the world economy is disquieting.

The free market mechanism in theory

Within national boundaries, a particular geographical pattern of income distribution should not give rise to serious economic problems. There may be problems of imbalance but these can in theory be evened out. For example, the Hebrides are less prosperous than London. Their 'problem', however, should be soluble, first, by the ability of Londoners to invest capital productively in the Hebrides so as to profit from any advantages which the islands might offer[1] and, secondly, by the freedom of Hebrideans to migrate in search of work in London. If these combined market forces should produce unsatisfactory results, income can be redistributed from London to the Hebrides through the tax system. Whatever solution is adopted, the fact remains that the Hebrides are relatively poorly endowed with resources and are therefore dependent on London for their prosperity.[2]

The same relationship can be seen to exist between, say, Eastern Zambia and the Copperbelt. It can also be applicable in the international economy, if market forces function smoothly. One could read through the preceding paragraph, substituting, say, Tanzania and Germany for the Hebrides and London, or extending the model to cover relationship between LDCs on the one hand and the developed countries on the other, and it would be feasible in theory. In practice, however, difficulties arise.

The world economy in practice

The present world market is full of restraints on the international movement of factors of production. Trade in goods and services is now more free than it has been at any time since the 1930s but both developed countries and LDCs still impose restrictions on imports. Capital movements are also restricted and labour movements are rigidly controlled. Since the world market is not a free market, it follows that one cannot construe criticisms of the imbalance of the present world economy as criticisms of the free market *per se*. In fact, it could be said that the imbalance is the result of the impediments which have been introduced into the free market mechanism, aggravated by the absence of an international tax system.

Nevertheless, it is doubtful whether any attempt to remove these impediments wholesale would represent a practicable solution to the problem of income distribution in the world today. A free market is a 'One World' concept. It can only be said to have existed, if at all, in the late nineteenth and early twentieth centuries when a booming Europe

1. Such as low labour costs or special skills or natural resources.
2. This is of course another over-simplification. Actual inter-relationships between regions are obviously far more complex.

exported its capital, labour, and enterprise to develop the rest of the world. The concept breaks down on economic nationalism and policies of governmental regulation of the economy, such as exist in both developed and less developed countries. Even if the former were prepared to adapt their domestic policies to the disciplines of the free market, it is doubtful whether the LDCs would accept the position of economic dependence to which the free market would appear to consign them.

Current development strategy

A compromise has therefore been evolved and put into operation. It consists in the provision of capital aid and technical assistance to the LDCs by the developed countries, which could be said to have the effect of compensating for the restrictions imposed by the latter on capital and labour movements. This aid is used by the LDCs to supplement their domestic resources which are employed in the diversification of their economies towards the ultimate goal of industrialisation and away from traditional specialisation in primary production. This process of industrialisation is carried on in protected national markets but, in the more optimistic versions of this strategy, it is provided that the process should be based on regional integration amongst LDCs, thus giving a sounder foundation to their economic independence. It is hoped that this approach will lead to a 'new international division of labour' and to a more closely integrated world economy, in which the LDCs will have a better opportunity of benefiting from any ensuing advance towards a truly competitive world market.

The continuing relevance of comparative advantage

Although, in the foreseeable future, the development of the LDCs is not likely to take place in a competitive framework, comparative advantage and specialisation through trade continue to be relevant to economic policy.

The idea of efficient resource allocation is one which should appeal to LDCs, which, by definition, suffer from a scarcity of productive resources.[1] One of the objects of planning in LDCs is to ensure that efficiency of resource allocation is achieved. The principle of comparative advantage is thus applicable to development planning. It should, of course, be applied flexibly and dynamically, looking forward to a country's *potential* advantages as well as those which are immediately apparent. Thus, comparative advantage does not always imply that industry in LDCs should produce only simple, labour-intensive manufactures.

From the point of view of the developed countries, comparative advantage indicates that they should accept, without restriction, imports of new types of manufactured goods from LDCs. Rather than attempt to protect established domestic industries from this competition, developed countries should use the opportunity it provides to redeploy their capital

1. Given that aid is not unlimited.

and labour in more productive occupations, even at the expense of the short-term costs and human hardship involved in allowing inefficient industries to run down. Such short-term losses could well be met out of the resources of the economy as a whole and would in due course be offset by the long-term gains from higher productivity.

Trade and Aid

The preceding sections of this chapter have dealt with trade as a means of increasing productivity. This section examines trade as a means of acquiring external resources for development and its relationship to aid in this respect. This function of trade is especially relevant to the LDCs.

The basic economic distinction between trade and aid is that trade is an *exchange* of resources whereas aid is a *transfer* of resources. Both parties gain from an exchange but a transfer implies a loss to one and a gain to the other. Aid and trade make external resources available to LDCs in different forms and with different effects. Each is more appropriate to different circumstances.

The savings gap

In the first place, one can consider the hypothetical case of an LDC which is assumed to be unable to generate sufficient voluntary or taxed savings out of its domestic resources, in order to finance its investment programme. It is then faced with the alternatives of cutting back on its planned investment or of financing the savings deficiency by government deficits (i.e. 'printing money'). If it takes the latter course, it will run a balance of payments deficit and, in the absence of adequate foreign exchange reserves, this deficit will eventually[1] force the country to deflate and reduce its growth rate. Sooner or later, the shortage of domestic resources sets a limit on its growth potential.

This type of situation is referred to as the 'savings gap' since a savings shortage is the fundamental constraint in growth.[2] The most appropriate means of assisting a LDC with a 'savings gap' is by providing aid. Aid is a transfer of capital, i.e. of foreign savings, and would correct the savings deficiency directly.[3] Since it is a transfer of foreign exchange, it also corrects the balance of payments deficit.

The provision of opportunities to a LDC to expand its exports would not necessarily close its 'savings gap'. First, the resource shortage itself might prevent the LDC from producing the goods for export. Secondly, even if exports could be increased without additional investment, new export income would only narrow the gap to the extent that it was saved or taxed.[4]

The trade gap

A different situation arises in the case of a LDC which is assumed to have

1. How long this takes depends on the extent of the savings deficiency and the patience of the country's creditors.
2. Non-financial constraints (e.g. lack of skills) do not enter into this argument.
3. It is assumed that the terms of aid will not give rise to debt-servicing problems.
4. This would also apply to increased export income resulting from higher prices.

sufficient savings potential to finance its planned growth out of domestic resources but which can only realise this potential if imported capital equipment is available. In other words, it is assumed that opportunities for productive investment in domestic capital equipment and public works have been temporarily exhausted. In such a case investment and economic growth depend on the availability of foreign exchange to purchase foreign capital goods.

It is also assumed that the traditional exports of the LDC in question cannot be expanded and further that there are no significant non-essential imports which can be reduced. Recurrent imports are assumed to consist of essential foodstuffs and of the fuels, raw and intermediate materials, and replacement parts without which the productivity of existing investment would drop.[1]

If a LDC in this situation cannot earn sufficient foreign exchange to pay for its essential recurrent imports and for the imported capital goods it desires, it is said to suffer from a 'foreign exchange gap' or a 'trade gap'[2] (or a 'structural balance of payments problem').

As in the case of a 'savings gap', this situation reflects a deficiency between actual savings and desired investment. However, in the previous case the limiting factor on savings was the shortage of domestic resources. In this case it is the shortage of foreign exchange. So, while a 'savings gap' calls for a transfer of external resources, a 'trade gap' may be filled by foreign exchange in any form. Improved terms of trade would increase the purchasing power of existing exports.[3] New export opportunities would enable the LDC to exchange domestic resources for imported capital goods. Capital aid could supply these goods directly and, in this case, aid would be equally effective if it financed recurrent imports.[4]

However, it could be argued that the transfer of aid to fill a 'trade gap' is the least beneficial alternative for the recipient LDC, since the provision of aid without export opportunities limits the efficiency with which the aid can be used and encourages the establishment of high cost, import substituting industries.[5]

Trade or aid?

This analysis shows that neither trade nor aid is a universal answer to the requirements of LDCs and that it is not in the interests of the LDCs as a whole to press for one at the expense of the other. Each is appropriate according to the specific needs of individual LDCs. Of course, if all LDC growth targets were raised to a very high figure, say 15%, the 'savings gap' would predominate throughout. Similarly, if anticipated growth rates were set very low there would be no savings problem and trade

1. These latter imports are known as 'maintenance imports'. One could add debt-servicing commitments to the list.
2. The 'trade gap' concept underlies the Prebisch Report (Chapter 9).
3. Terms of Trade $= \frac{\text{Export Prices}}{\text{Import Prices}}$. See Chapter 9 for a full explanation.
4. E.g. food aid or the UK's 'Kipping Loans' to India.
5. Especially industries to produce the capital goods which give rise to the 'trade gap' in the first place.

would suffice. However, at 'normal' growth targets of about 5% p.a., it is possible to make a broad generalisation to the effect that it is the less advanced of the LDCs (e.g. in Africa) which need aid above all else, while the more advanced among them (e.g. in Latin America) need export opportunities as well as aid.

Aid through trade

At the risk of over-extending this analysis, one final point should be made. The use of 'trade' above refers to the volume of trade at competitively determined prices (which may fluctuate). Thus trade policies in this context are policies relating to the *volume* of exports and imports. However, it is possible for trade policies to be designed to regulate or influence trade *prices*. Deliberate price regulation is practised nationally and internationally and has been proposed as a suitable way of assisting LDCs.

For an example, it is proposed that artificially maintained high prices should be set for primary commodities exported by LDCs. In such an arrangement, the high price would contain an implicit element of aid, equivalent to the difference between that price and the price which would have prevailed in a free market.[1] This is an inefficient way of giving aid, since it tends to inhibit desirable shifts in production. It necessitates the establishment of fiscal or other mechanisms in the importing country to ensure that the implicit aid transfer becomes available for investment. It is also an irrational way of distributing aid, since its distribution would depend on the 'accident' of the distribution of production and not on any criterion of need or effectiveness.

If 'aid through trade' is confined to higher prices for traditional LDC exports it has little to commend it. It may, however, be appropriate when extended to trade in non-traditional exports, viz. manufactured goods. Tariff preferences for LDCs are another form of 'aid through trade', since they give rise to an implicit subsidy from developed countries to industrial producers in LDCs.[2] Preferences on manufactured goods, especially if they are transitional, could be seen as a package deal giving the LDCs aid with built-in export opportunities and leading to new areas of specialisation.[3] In this sense they would be an appropriate remedy for a 'trade gap'.

Conclusions

The conclusions of this chapter are brief. The first is that developed countries which accept the obligation to aid LDCs must be prepared for competition from the latter to follow in trade. They should recognise

1. The actual market price may of course be artificially depressed below the hypothetical free market price level. This is the case, for example, when the protection of high-cost agriculture leads to the production of surpluses which are then sold at nominal prices in world markets.
2. The subsidy would be equivalent to the import duty forgone by the developed countries granting preferences.
3. At present, the main preferential systems are those between Britain and the Commonwealth (see Chapter 5) and between the EEC and its associates (see Chapter 6). General preferences from all developed countries to all LDCs are being discussed in UNCTAD and elsewhere (see Chapter 9).

this competition as being mutually beneficial and should not try to counteract its effects with protective measures.

The second is that trade and aid should both form part of an integrated policy to promote the development of LDCs. Aid, and private investment, should be directed, where appropriate, to export-oriented projects and not limited to financing import substitution.

The third conclusion is that LDCs, in planning their development, should recognise the benefits which would accrue to them from participation in international trade and should not attempt to isolate themselves from competition in the world market.

2 The LDCs in World Trade

This chapter consists of a series of tables showing the composition and flow of world trade with especial reference to LDCs.

Table 1

Table 1 sets out the value, price, and volume of world exports in 1953, 1960, and 1965.

Over the 12-year period 1953 to 1965 the value of world trade more than doubled, increasing by some 135%. The value of trade in primary products increased by 75%, whereas the value of manufactured goods traded increased by 205%. Manufactured goods now constitute the more valuable of the two main sectors of world trade. Since 1960 the rate of growth of trade in manufactures has been less spectacular than in the earlier part of the period.

Taking 1953 as the base year, the overall export price index fluctuated around 100 between 1953 and 1965, with a definite upward trend in 1964 and 1965. The price index for manufactures remained stable between 1960 and 1963 and then accelerated in 1964 and 1965. The price index for primary products fell steadily to a trough of 90 in 1962, since when it has risen, but by 1965 had not regained the 1953 level.

Over the period 1953 to 1965 the volume of world trade has increased at a faster rate than the volume of world production.

Table 2

Table 2 gives the shares and direction of the value of world trade in 1953, 1960, and 1965. In this table, shares in world trade are apportioned between developed industrial countries,[1] LDCs, and the centrally planned countries. When read horizontally, the figures represent exports from the areas listed down the side; on the assumption that these exports reach their declared destination, the figures read vertically represent imports into the areas listed across the top of the table.

From this table it can be seen that the developed industrial countries account for two-thirds of world exports and imports. Moreover, trade between the developed countries constitutes the largest single flow in the table, accounting for nearly one-half of all world trade. The increase in this flow has been stimulated by the increase in the 'intra-trade' of the EEC and EFTA.

1. I.e. developed countries excluding Australia, New Zealand, and South Africa; see note to Table 2.

The LDCs' share of world trade has been declining, falling from 27% in 1953 to under 20% in 1965. The share of LDC trade with the developed industrial countries in total world trade has fallen, as has the share of trade between the LDCs themselves. LDC trade with the centrally planned countries has increased its share of the total but still represents a small amount in value terms.

The centrally planned countries trade mainly with other centrally planned countries. However, the relative increase in their share of world trade has been due to increasing trade with the developed industrial countries and the LDCs.

Table 1 World Trade: Value, Price, and Volume 1953, 1960, and 1965

	1953	1960	1965
Value of world exports (US $ billion f.o.b.)			
Total	78·3	126·1	184
Primary products	41·8	56·2	(74)
Manufactured goods	35·6	68·6	(108)
Price (Unit value) of world exports (Index: 1953=100)			
Total	100	100	103
Primary products	100	93	(94)
Manufactured goods	100	105	109
Volume of world exports (Index: 1953=100)			
Total	100	161	228
Primary Products	100	144	(188)
Manufactured goods	100	183	(278)
Volume of world output (Index: 1953=100)			
All commodities	100	144	(187)
Agriculture	100	122	(135)
Mining and Manufacturing	100	154	(212)

Note: This table is only a rough guide, since the index figures are estimates and the figures in brackets are provisional. Total value figures include unclassified items but exclude certain US strategic exports (valued at $2·1 billion in 1965).

Source: GATT, *International Trade 1965.*

Table 2 **Shares and Direction of World Trade by Value 1953, 1960, and 1965**

(US $ billion f.o.b. and percentages of world total exports)

Exports to:		Developed Industrial Countries		Less Developed Countries		Centrally Planned Countries		**World Total**	
Exports from:	Year	Value	%	Value	%	Value	%	Value	%
Developed Industrial Countries	1953	29·1	*37·2*	13·7	*17·5*	0·9	*1·1*	46·0	*58·7*
	1960	52·9	*42·0*	20·6	*16·3*	2·8	*2·2*	79·8	*63·3*
	1965	85·6	*46·5*	25·1	*13·6*	4·7	*2·5*	120·5	*65·5*
Less Developed Countries	1953	15·1	*19·3*	5·2	*6·7*	0·3	*0·4*	21·1	*27·0*
	1960	19·3	*15·3*	6·1	*4·9*	1·2	*1·0*	27·3	*21·8*
	1965	25·8	*14·0*	7·5	*4·1*	2·4	*1·3*	36·6	*19·9*
Centrally Planned Countries	1953	1·2	*1·5*	0·4	*0·6*	6·3	*8·0*	7·9	*10·1*
	1960	2·8	*2·2*	1·3	*1·0*	10·9	*8·7*	15·0	*11·9*
	1965	4·6	*2·5*	3·0	*1·6*	14·0	*7·6*	21·6	*11·8*
World Total	1953	48·1	*61·4*	19·8	*25·3*	7·6	*9·6*	78·3	*100·0*
	1960	77·9	*61·8*	28·6	*22·7*	15·1	*12·0*	126·1	*100·0*
	1965	119·9	*65·1*	36·5	*19·8*	21·4	*11·6*	184·0	*100·0*

Note: These figures refer to exports by origin and destination. If it is assumed that exports reach their declared destinations, the *vertical* columns may be taken to represent *imports* into the areas listed across the top of the table, while the horizontal rows represent exports from the areas down the side.
The constituent countries of the three groups are defined in Appendix A.
Australia, New Zealand, and South Africa, not being 'industrial' developed countries, do not appear in any of the three groups in this table but exports from and to them are included in the World Total figures. This explains why the World Total is slightly in excess of the total of the three groups.

Source: GATT, *International Trade 1965.*

This table can also be used to show the trade balances of the various blocs. Thus in 1965 the trade balance of the LDCs with the rest of the world was as follows ($m f.o.b.):—

	Developed industrial	Centrally planned	World total
LDC exports to	25·8	2·4	36·6
LDC imports from	25·1	3·0	35·5
Balance of trade (f.o.b.)	+0·7	−(0·6)	+0·1

Table 3

Table 3 shows in greater detail the exports and imports (following the assumption made in Table 2) of the developed industrial countries, the LDCs, and the centrally planned countries in 1961 and 1964.

From this table it is possible to assess the relative importance of the three groups of countries in world imports and exports of primary products and manufactures. For example the developed industrial countries export a greater amount of food and raw materials than do the LDCs, whereas the LDCs export more fuel than do the developed industrial countries. Despite fuel exports from the LDCs, however, the developed industrial countries' exports of primary products as a whole were slightly greater than those of the LDCs in 1965.

The table also indicates the markets on which the various blocs of countries depend for the export of their primary products and manufactures.

Primary products

In 1964 the developed industrial countries accounted for 43% of primary product exports and about three-quarters of their exports went to other developed industrial countries. They also accounted for 71% of primary product imports, deriving almost one-half of their supplies from other developed industrial countries.

In the same year, the LDCs accounted for 41% of primary product exports, almost three-quarters of which went to developed industrial countries. The LDCs imported 16% of world primary product imports, of which total 41% came from developed industrial countries and 48% from other LDCs.

Manufactures

Developed industrial countries accounted for 80% of world exports of manufactures and 60% of imports. Some 68% of their export trade in manufactures and 90% of their import trade was with other developed industrial countries.

Table 3 Direction of World Trade by Commodity Groups: 1961 and 1964

(US $ billion f.o.b.)

Exports to:	Developed Industrial Countries		Less Developed Countries		Centrally Planned Countries		World Total	
Exports (of) from:	1961	1964	1961	1964	1961	1964	1961	1964
Developed Industrial Countries:								
Food	8·9	11·5	2·9	3·5	0·5	1·3	12·4	16·4
Fuels	2·8	3·6	0·6	0·4	..	..	3·4	4·2
Total Primary Products	19·1	23·4	4·2	4·7	0·8	1·7	24·4	30·2
Total Manufactures	37·4	52·8	16·5	18·5	2·1	2·5	58·7	77·9
Total all exports	57·2	77·2	21·0	25·1	3·0	4·3	84·2	109·7
Less Developed Countries:								
Food	6·7	8·2	1·6	2·1	0·7	1·0	9·1	11·4
Fuels	5·4	7·7	2·4	2·6	..	..	8·1	10·8
Total Primary Products	16·7	20·8	4·8	5·5	1·4	1·7	23·5	28·8
Total Manufactures	2·5	3·5	1·3	1·6	0·1	0·2	4·0	5·5
Total all exports	19·3	24·4	6·2	7·2	1·5	1·9	27·7	34·4
Centrally Planned Countries:								
Total Primary Products	1·9	2·5	0·5	0·8	4·1	4·1	6·6	7·4
Total Manufactures	1·0	1·5	1·2	1·8	6·7	9·0	9·0	12·4
Total all exports	3·0	4·1	1·9	2·7	10·8	13·4	15·7	20·2
World Total								
Food	17·6	22·2	5·0	6·4	2·8	3·9	25·7	32·8
Fuels	8·8	12·1	3·1	3·2	1·2	1·3	13·5	17·1
Total Primary Products	40·6	50·3	9·9	11·5	6·6	7·9	58·0	70·9
Total Manufactures	41·3	58·3	19·2	22·2	8·9	11·7	72·4	96·7
Total all exports	82·7	109·7	29·7	34·3	15·6	20·0	131·9	169·8

Note: Primary Products = Food (SITC 0+1+4+22: food, beverages, and tobacco; oilseeds, oils, and fats), Raw materials (SITC 2, less 22); and Fuels (SITC 3).
Manufactures (SITC 5–8) includes semi-manufactures (e.g. precious stones, unwrought metals, chemicals, processed wood, and leather).
The note to Table 2 applies also to this table. 1964 is the most recent year for which these figures are available; 1960 figures are not available in this form.

Source: GATT, *International Trade 1965.*

Table 4 **Direction of World Trade by value 1965—(detailed table)**

($US million f.o.b.)

Exports from:	Exports to: World total	USA & Canada	Developed Countries: Western Europe Total	Western Europe of which EEC	Western Europe of which UK	Japan	Australia, N. Zealand, & S. Africa	Less Developed Countries: Africa North	Africa Other	Asia Western (ME)	Asia Other	Latin America	Rest of World	Centrally Planned Countries
World Total	186,300	28,620	84,090	46,430	13,980	6,870	6,340	2,910	5,200	4,350	12,450	9,370	2,710	21,130
Developed Countries:														
USA & Canada	35,170 *(18·9%)*	10,170	10,550	5,500	2,660	2,345	1,497	346	467	754	2,825	4,000	607	520
Western Europe	79,010 *(42·4%)*	7,400	50,850	29,040	5,010	620	3,080	1,660	2,860	2,100	2,960	2,680	770	3,670
of which: EEC	47,950 *(25·7%)*	3,910	33,300	20,840	2,370	340	910	1,340	1,620	1,120	1,450	1,630	380	1,660
UK	13,230 *(7·1%)*	1,960	5,370	2,530	—	140	1,860	160	830	620	1,110	440	340	385
Japan	8,450 *(4·5%)*	2,715	1,100	485	205	—	520	53	617	280	2,190	410	100	480
Australia, New Zealand, and South Africa	5,330 *(2·9%)*	708	2,460	855	1,450	650	296	13	203	61	359	38	183	307
Less Developed Countries:														
North Africa	2,890 *(1·6%)*	68	2,210	1,720	270	28	2	62	43	37	40	31	..	370
Other Africa	5,020 *(2·7%)*	567	3,260	1,900	1,030	152	125	43	342	83	115	14	18	200
Western Asia (Middle East)	6,460 *(3·5%)*	468	3,120	1,830	800	890	305	66	164	510	430	81	67	145
Other Asia	9,310 *(5·0%)*	1,785	2,290	1,050	930	1,190	375	96	209	225	2,190	130	51	740
Latin America	11,170 *(6·0%)*	3,795	3,640	2,190	680	510	41	125	50	33	67	1,150	810	900
Rest of World	1,870 *(1·0%)*	745	680	345	300	53	49	7	34	5	18	115	120	2
Centrally Planned Countries	21,630 *(11·6%)*	189	3,930	1,610	650	430	48	445	205	260	1,260	730	7	13,810

Notes: [1]Table 4 is derived from the UN Monthly Bulletin of Statistics, June 1966 (Special Table B). The latter is also the source of the GATT trade figures for 1965 used in Tables 1 and 2. It will be noted that there is a difference of $2·1 billion between the world totals of the UN and GATT figures. This is accounted for by certain US strategic exports which are excluded from GATT figures but included in UN ones. In this table $1,090 million of these strategic exports are treated as being of unspecified destination. The total of unspecified exports in this table is $2,260 million Unspecified exports are included in world total figures but not in the area breakdown. Trade between China (Mainland), Mongolia, N. Korea, and N. Vietnam and between East and West Germany is excluded from the table.
[2]The areas in this Table are defined in Appendix A.

Table 5 **Market Dependence of Exports by Main Areas 1965** (percentages of each area's total exports)

Exports from:	Exports to: World total	Developed Countries: USA & Canada	Western Europe: Total	Western Europe: of which EEC	Western Europe: UK	Japan	Australia, N. Zealand, & S. Africa	Less Developed Countries: Africa: North	Africa: Other	Asia: Western	Asia: Other	Latin America	Rest of World	Centrally Planned Countries
World Total	100	15	45	25	8	4	3	2	3	2	7	5	1	11
Developed Countries:														
USA & Canada	100	29	30	16	8	7	4	1	1	2	8	11	2	1
Western Europe	100	9	64	37	6	1	4	2	4	3	4	3	1	5
of which: EEC	100	8	69	43	5	1	2	3	3	2	3	3	1	3
UK	100	15	41	19	—	1	14	1	6	5	8	3	3	3
Japan	100	32	13	6	2	—	6	1	7	3	26	5	1	6
Australia, New Zealand, and South Africa	100	13	46	16	27	12	6	..	4	1	7	1	3	6
Less Developed Countries:														
North Africa	100	2	76	60	9	1	..	2	1	1	1	1	..	13
Other Africa	100	11	65	38	21	3	2	1	7	2	2	..	..	4
Western Asia (Middle East)	100	7	48	28	12	14	5	1	3	8	7	1	1	2
Other Asia	100	19	25	11	10	13	4	1	2	2	24	1	1	8
Latin America	100	34	33	20	6	5	..	1	..	..	1	10	7	8
Rest of World	100	40	36	18	16	3	3	..	2	..	1	6	6	..
Centrally Planned Countries	100	1	18	7	3	2	..	2	1	1	6	3	..	64

Note: This table is derived from Table 4 (see the note to Table 4).

LDCs accounted for only 6% of world exports of manufactures. Almost two-thirds of their exports went to developed industrial countries. 23% of world imports of manufactures was taken by LDCs of which over four-fifths came from the developed countries.

As can be seen from the above, the developed industrial countries predictably dominate trade in manufactures and sell largely to each other. However, this tendency exists also in trade in primary products, although to a lesser extent. By contrast the LDCs trade mainly with the developed countries and not between themselves.

Tables 4 and 5

Table 4 is based upon a more detailed directional breakdown of the network of world trade summarised in Table 2. Table 5 shows the market distribution of the exports of each area based upon the figures in Table 4. The constituents of the country groups are listed in the Appendix to this chapter.

Developed countries

USA and Canada: These countries account for 19% of world exports. About one-third of their exports are to each other and a further third goes to Western Europe. Japan is also an important market. LDCs take about one-quarter of US and Canadian exports. Their main LDC markets are Latin America and 'Other Asia'.

Western Europe: The EEC exports 26% of total world exports[1] and the UK 7%. The rest of Western Europe accounts for 9%. About two-thirds of all Western European exports are sold within Western Europe. The LDCs, in particular the African and Asian countries, take about one-fifth of all Western European exports. UK exports are far more widely spread than those of the EEC. The main difference between the export patterns of the UK and the rest of Europe is the relative importance to the UK of North America, Australia, New Zealand, and South Africa which together take about one-quarter of UK exports. The LDCs take approximately one-quarter of UK exports.

Japan: Japan is the source of 5% of world exports. Its main markets are North America and 'Other Asia'. Western Europe does not currently provide a very important market for Japan. The LDCs take over two-fifths of Japan's exports.

Australia, New Zealand, South Africa: These three countries provide 3% of world exports. The UK is the main market, followed by the EEC, USA, and Japan. Exports to LDCs add up to less than one-fifth of total combined exports.

1. Including trade within the EEC.

Centrally planned countries

These together account for some 12% of world exports. Two-thirds of their exports are sold to other centrally planned countries. The percentage of their exports destined for LDCs is one-half as large as that of the exports of developed countries. Their main LDC market is 'Other Asia'.

LDCs

North Africa: This area is dependent on Western Europe for markets for three-quarters of its exports, although the centrally planned countries also provide an important market for some countries. 7% of exports go to other LDCs. North Africa provides 2% of world exports.

Other Africa: 'Other Africa' accounts for 3% of world exports. Two-thirds of exports from this area go to Western Europe, where the UK is the largest national market. The USA also provides an important market. 8% of exports go to African LDCs, and a total of 12% to all LDCs combined.

Western Asia ('Middle East'): Western Asia provides 4% of world exports. These exports consist very largely of petroleum. The main export markets are Western Europe and Japan which together account for 62% of Western Asia's exports. Japan and the UK are the largest *national* markets. 15% of exports go to Asian LDCs and 20% to LDCs as a whole.

Other Asia: 'Other Asia' accounts for 5% of world exports. This area sends a lower percentage of its exports (62%) to developed countries than does any other LDC area listed here. It has also a higher percentage of 'intra-trade' (24%) than any other LDC area and the most even spread of markets among LDC areas.

Latin America: Latin America accounts for 6% of world exports. One-third of its exports go to North America and one-third to Western Europe. 10% of its exports are sold within Latin America.[1]

Rest of World: This residual group (providing 1% of world exports) is composed mainly of Caribbean islands, whose trade pattern is similar to that of Latin America.

From the above notes it can be seen that 'intra-trade' among the LDCs is low except in 'Other Asia' and that the LDCs depend heavily on the developed countries for their export markets—sometimes indeed on one area only.

1. The Latin American Free Trade Area (LAFTA) and the Central American Common Market (CACM), under whose aegis much of Latin American trade is conducted, are described in Chapter 4.

Appendix A

Classification of Countries by Areas and Economic Groups

In this and other chapters in this book, the definitions of the three economic groups of countries and of their geographical sub-groups are those used by the GATT and the UN, as listed below.

Developed Countries

Industrial:

United States		
Canada		
Western Europe:	EEC	(France, W. Germany, Italy, Benelux).
	EFTA	(UK, Austria, Portugal, Switzerland, Denmark, Norway, Sweden).
	Other	(Iceland, Ireland, Finland, Spain, Greece, Turkey, Yugoslavia).
Japan		

Non-industrial:

Australia
New Zealand
S. Africa (incl. S.W. Africa)

Centrally Planned Countries

USSR	
Eastern Europe:[1]	Albania, Bulgaria, Czechoslovakia, E. Germany, Hungary, Poland, Romania.
China (Mainland), Mongolia, N. Vietnam, and N. Korea.	

Less Developed Countries

North Africa:	Morocco, Algeria, Tunisia, Libya, UAR.
Other Africa:	All other countries and territories in Africa excluding South Africa and SW Africa but including Rhodesia and also including offshore islands (e.g. Madagascar, Mauritius, Seychelles, Reunion).

1. N.B. Yugoslavia is Western.

Western Asia: (Middle East)	Iran and Asian countries to the west, i.e. Iran, Iraq, Jordan, Syria, Lebanon, Israel, Cyprus, Saudi Arabia, and the states of the Arabian peninsula.
Other Asia:	All other countries and territories in Asia, excluding Japan and centrally planned countries, but including offshore islands (e.g. Philippines, Indonesia, Hong Kong, Taiwan).
Latin America:	Continental Central and South America, (excluding Guyana, Surinam, and French Guiana) plus Cuba, Haiti, Dominican Republic.
Rest of World:	Jamaica, Trinidad and Tobago, Barbados, Guyana, and Caribbean dependent territories (including Surinam and French Guiana). Malta, Gibraltar, Greenland. Dependent territories (islands) in Pacific Ocean and elsewhere.

These definitions are of necessity arbitrary since they include Kuwait with the LDCs, Turkey and Greece as 'industrial' countries, etc.

3 LDC Exports of Primary Commodities[1]

This chapter is divided into two sections. The first describes the place of primary commodities in the trade of LDCs and the role of international commodity agreements; while the second consists of a compilation of short notes on selected primary commodities.

The Role of International Commodity Agreements

The Importance of Primary Commodities to LDCs

Primary commodities accounted for 42% of the total value of world trade in 1964. Although primary commodities are often most readily associated with LDCs it should be remembered that less than one-half of world exports of primary commodities are exported by the LDCs. If fuels are excluded from this calculation, the share of LDCs falls to one-third. The industrial countries are larger exporters of both food and raw materials than the LDCs.

However, the dependence of developed countries on the export of primary commodities is not of such overall importance as this might suggest. Only a relatively small proportion of the total population of developed countries is engaged in the production of primary commodities and taxes on such commodities in developed countries account for only a small part of government revenue. Even countries like Australia, Canada, and New Zealand which export mainly primary commodities in fact produce more manufactures than primary products.

For the LDCs the situation is very different. Even though primary commodities from LDCs constitute less than one-half of the value of world exports of primary commodities, the economies of the LDCs are far more dependent on the production and export of primary commodities than are those of the developed countries. A very large proportion of the

1. Primary commodities are defined by the Standard International Trade Classification (SITC) as follows:

SITC Code: 0, 1 & 4: (+22)	*Food:* food and live animals; beverages and tobacco; oilseeds, animal and vegetable oils and fats.
SITC Code: 2 (−22)	*Raw materials:* hides and skins; crude rubber; wood, lumber and cork; pulp and waste paper; textile fibres; crude fertilisers and crude minerals (excluding fuels); metalliferous ores and concentrates and metal scrap; crude animal and vegetable materials.
SITC Code: 3	*Fuels:* mineral fuels, lubricants, and related materials.

(The SITC is explained in the Glossary of Terms.)

population in LDCs is engaged in the production of primary commodities and a sizeable proportion of government revenue is obtained from taxes on exports of primary commodities.

Proceeds from the exports of primary commodities account for some 86% of total LDC export earnings. Moreover, many LDCs are dependent on very few primary commodities for a large part of their export earnings. For example, in 1965 81% of Ceylon's export earnings came from tea, rubber, and coconut products, and 82% of Ghana's from cocoa, diamonds, and manganese ore. Nor are these isolated examples. During the period 1959–61 22 LDCs were dependent on three (or less) primary commodities for over 70% of their export earnings.[1]

Slow Growth in Demand for Primary Products

One of the main problems facing primary commodity producers is the sluggish demand for primary commodities. Exports of primary commodities over the past 30 years have grown less than half as rapidly as manufactures in terms of annual percentage increases. If petroleum is excluded, exports of primary commodities have grown at one-half of the rate of world trade in general.

The main reason generally advanced for the comparatively slow growing demand for foodstuffs is that as incomes rise in developed countries an ever smaller proportion of additional income is spent on such products. It is also alleged that the demand for natural raw materials suffers from the increasingly economical use of material imputs in industry and from the range of synthetic substitutes which is constantly being developed and expanded.

LDCs are particularly vulnerable to competition from synthetic substitutes since the latter are produced almost entirely in developed countries. LDC exporters of foodstuffs face additional difficulties caused by the protection of agriculture in almost all developed countries.

The above assertions rest on the implicit assumption that the developed countries are the only actual and potential outlet for primary commodities exported by LDCs. This assumption corresponds quite closely to the present situation, since the developed countries absorb about 75% of the LDCs' primary commodity exports. However, it would be wrong to assume that the present state of affairs is immutable. There is tremendous *potential* demand for primary commodities in the centrally planned countries and in the LDCs themselves. Any increase in the low levels of income in LDCs is likely to be spent largely on basic essentials. If this potential demand could be realised, the pattern of trade in primary commodities could be substantially altered and the assumption underlying the argument in the previous paragraphs would cease to hold.

1. For examples of commodity concentration in Africa see Table 48, Appendix E.

Export Instability

Severe instability in the export revenue of LDCs caused by fluctuations in price and/or quantity of exports has long been thought to be damaging to the economies of LDCs and to be related to any or all of three things. First, export instability has been attributed to the specialisation of individual LDCs in the export of only one or a few primary commodities. It has been attributed, secondly, to the concentration of exports of individual LDCs to one or two major developed countries' markets and, thirdly, to the very high proportion of exports of primary commodities to total exports of LDCs.

Empirically, it is now doubtful whether there is a strong positive correlation between the export instability of LDCs and any of the three possible explanations cited above.[1]

Whatever the causes, however, the fact remains that certain countries have suffered severe export instability. Moreover the effects of such instability can be harmful. This is particularly true of producers of commodities, such as tree crops, which have a long gestation period. Since supply is inelastic in the short term, a temporary increase in demand would tend to raise the price sharply. High prices would encourage the development of synthetic substitutes and also provide an incentive to increase planting possibly on a disproportionately large scale. If the increased production were to come on the market only after demand had fallen, this would in turn cause prices to be depressed. When prices for an individual commodity are low, a particular section of the population, which may be large or small, may be badly hit, with few savings to fall back on and little prospect of alternative employment. Moreover, the harmful effects of export instability may not be limited to a particular group of producers. A fall in producer incomes would have repercussions on incomes in the rest of the economy and the uncertainty engendered by instability would probably discourage investment.

Efforts to mitigate export instability have been concentrated on stabilising the prices of individual primary commodities. Even with a stable price, however, demand may still continue to fluctuate and this will destabilise export earnings. Stabilisation of export earnings can be achieved through a combination of price stabilisation and guarantees of access to markets and/or by supplementary financing of fluctuations in exports.[2]

Attempts to minimise fluctuations in the prices of primary commodities have been made on both national and international levels. Attempts on a national scale have mostly taken the form of setting up marketing boards[3] for particular commodities; whereas international efforts have resulted both in the past and currently in the conclusion of international commodity agreements.

1. See Alasdair Macbean, *Export Instability and Economic Development*, Allen and Unwin, 1966.
2. This is described in Chapter 10.
3. A typical marketing board buys from producers at a given price, holds stocks, and sells them on the world market in as favourable conditions as the circumstances allow. This shields producers from undue fluctuations in world market prices.

Types of International Commodity Agreement

There are three main types of commodity agreement: buffer stock schemes, international quota agreements, and multilateral contracts. Combinations of different types of agreement are of course possible and the proposal for an international agreement on cocoa currently being discussed involves a buffer stock in conjunction with quota allotments between producing countries. The three principal types of agreement are described in the following paragraphs.

Buffer stocks

Buffer stock schemes entail fixing a maximum 'ceiling' price and a minimum 'floor' price within which the price of the commodity is free to vary. The price is maintained by purchases or sales of the commodity by the agency controlling the stock. Thus, if the price falls to the minimum level, the agency buys excess supplies at the lower fixed price; whereas if the price exceeds the upper limit, excess supplies are sold at the maximum price in order to hold the price down.[1]

The advantages of a buffer stock are that it need not include all major producing countries in order to be effective, and that it does not interfere with the working of the price mechanism by enforcing production quotas in the producing countries.

There are also certain disadvantages. Buffer stocks cannot be used for commodities which are unduly expensive to store nor for commodities which undergo serious deterioration through storage. The capital and storage costs of operating the stock may be high and if the commodity comes in various grades this may lead to difficulties, since price differentials between grades rarely remain constant and also differ considerably from region to region. In addition, the agency responsible for the stock must initially have large resources of capital and stock if it is to be effective in maintaining the price between the fixed levels. Further, if the chosen price range is not in accord with long-term market trends for the commodity, the resources of the agency are eventually bound to become inadequate. If the price range is fixed too high the participants in the scheme will incur a capital loss, since persistent efforts to maintain the price within the range will have forced purchases of considerable amounts of stock above the current market price. Conversely if the price range is fixed too low, the stock will be exhausted.

Tin has been subject to buffer stock schemes intermittently since 1956 under three successive international agreements. Stocks have twice been exhausted by high prices persistently above the buffer stock price range.[2]

1. In some cases, the agency may buy or sell *before* the price limit is reached.
2. See p. 44.

International quota agreements

Under international quota agreements, prices are stabilised indirectly through control of the quantity of the commodity which is allowed on the market. Once the overall quantity has been determined, national quotas are allocated to individual producing countries. In order that it should be effective, such an agreement must obviously include all major producing countries. It should also include all major consuming countries in order to check evasion of quotas by participant producers and to minimise the incentive to producers outside the agreement to expand production.

The advantages of this type of international commodity agreement over buffer stock schemes are that the high initial capital investment, risks of capital loss, and storage problems are seemingly absent. However, although these are not obstacles which beset the controlling agency, they still constitute problems to be faced by the individual producing countries.

The main criticism of this type of agreement is that it promotes misallocation of resources by protecting inefficient producers and by inhibiting the full range of consumer preference. Moreover, it has proved difficult to maintain quotas especially when there are severe output fluctuations, as exemplified by the 1933 Wheat Agreement.

These criticisms stem from past experience of the workings of such agreements, e.g. the international agreements on coffee and sugar, but they are not in principle necessary concomitants of international quota agreements. If it were possible to obtain overall agreement for greater flexibility in reallocating quotas based on the cost structure and potential growth of the commodity in different countries, rather than on historical precedent, these criticisms could to a large extent be met. Such agreements, however, are naturally very difficult to conclude since each member country has an interest in obtaining as large a quota as possible for itself.

The two international quota agreements since 1945 have been the coffee and sugar agreements (see pp. 68 and 63). The sugar agreement is not currently in operation.

Multilateral contracts

Under multilateral contracts, when prices fall to an agreed minimum, importing countries are obliged to buy specified quantities from exporting countries, while when prices rise to an agreed maximum, exporting countries are obliged to sell specified amounts of the commodity to the consuming countries. Between these stipulated prices trade remains free. The effectiveness of this scheme in stabilising prices depends on the amount of the market covered by the scheme and the range between the agreed maximum and minimum prices.

The advantages of this type of international commodity agreement are that it does not involve the problems of multilateral stock management, nor does it restrict production.

On the other hand, the number of commodities for which such a scheme is suitable is limited by the necessity for the product to be comparatively standardised or to be one in which differentials between grades are relatively constant.

There is also the difficulty of forecasting long-term market trends (cf. buffer stocks). If the long-range equilibrium price is consistently above or below the stipulated price range a regular transfer of income will ensue. The direction of the transfer will depend on whether the 'normal' price is higher than the price range, in which case the flow will be from producing to importing countries; or lower, in which case the flow will be from importing to producing countries.

The International Wheat Agreement[1] is the only recent example of a multilateral contract scheme,[2] and nearly all members are developed countries.

Current agreements

Since 1945 international commodity agreements have been concluded for five commodities only: wheat, sugar, coffee, tin, and olive oil. The total value of world trade formally covered by international commodity agreements of the types described above accounts for some 10% of world trade in primary products. The actual amount covered, however, is far less, for the agreement on olive oil is between producers only and aims at maintaining quality rather than stabilising prices, while the international agreement on sugar is currently suspended.

That the number of commodities subject to international agreement is small is hardly surprising, given the conflicting interests between individual member countries inherent in any such agreement. Conflicts of interest arise not only between LDCs and developed countries, but also between producing and consuming LDCs and between different producing LDCs. Moreover, international commodity agreements are not practicably feasible for all primary commodities, since technical difficulties (e.g. storage and grading) make certain commodities unsuited to international agreements.

Traditionally, commodity agreements have aimed at eliminating excessive fluctuations in price, whilst attempting to keep in line with the long-run equilibrium price of a commodity. More recently, however, and particularly in connection with UNCTAD, commodity agreements have been additionally construed as a means of transferring resources from consuming to producing countries by setting target prices at a level intentionally higher than the estimated long-run equilibrium price. In order to maximise foreign exchange earnings in this way, prices must obviously not be set so high that a consequent drop in sales would be sharp enough actually to reduce total earnings and also increase competition

1. This agreement was signed in 1962, and is now due to expire on 1 July 1968 unless the principles laid down in the Kennedy Round are put into practice before that date.
2. The agreement survived only by waiving the obligation of consuming countries to purchase specified quantities

from substitutes. The feasibility of this type of commodity agreement is discussed in Chapter 9.

It is arguable, however, that this additional function which has been accredited to commodity agreements is not the most efficient way of transferring resources to LDCs. As is suggested in Chapter 1, such a method of transferring resources may not necessarily be the most appropriate to a particular LDC and in general such a system tends to perpetuate the current structure of trade in primary products, regardless of whether or not this structure is the optimal one.

Notes on Selected Commodities

Table 6 gives a list of the twenty most important primary commodities in value terms which were imported into industrial countries from all sources in 1962. The second column of the table gives the values of these same commodities imported into industrial countries from LDCs only. Since the order of magnitude in the second column is not always the same as in the first, a list showing the order of magnitude of imports from LDCs only is drawn up in the fourth column. For some commodities the placing remains the same. Thus petroleum is the largest single import into industrial countries from all sources and also from LDCs only. The third column shows what percentage of imports from all sources of any one commodity is supplied by LDCs; while the fifth column shows what percentage of the second column total (i.e. $20,312·4m) is taken by individual commodities imported from LDCs only. The selected commodities in bold type are briefly described in the notes which follow.

In these notes, petroleum, coffee, copper, sugar, cotton, rubber, cocoa, vegetable oils and fats, and tea are included because these particular primary commodities constitute nine of the eleven most important exports in value terms from LDCs to industrial countries. Tin is included both because over 70% of tin imports into developed countries come from LDCs and also because tin has been subject to successive international commodity agreements. Lead and zinc, although not primarily produced in LDCs, have been included since there has been discussion about the possibility of concluding international agreements for the two metals.

Although unmanufactured metals are classified as semi-manufactures in the SITC, these notes include information on copper, tin, lead, and zinc in metal form as well as in ore form. Table 6 also includes figures for metals against the relevant headings.

Table 6 **Primary Commodities: Imports into Industrial Countries[1] 1962**

Value of imports into industrial countries: ($ million)

Commodity Group	From all Sources	From LDCs *Value*	*Share%*	*Order*	*% of LDC total*
1 Petroleum (crude and refined)	8,848·8	6,760·5	*76*	(1)	*33·3*
2 Wood, lumber and wood pulp	3,346·5	519·9	*16*	(9)	*2·6*
3 Wool	1,972·5	294·6	*15*	(12)	*1·5*
4 Copper[2]	1,831·5	973·4	*53*	(3)	*4·8*
5 Coffee	1,737·5	1,716·3	*99*	(2)	*8·4*
6 Vegetable oils and fats[3]	1,631·9	865·1	*53*	(6)	*4·3*
7 Meat	1,573·7	240·9	*15*	(14)	*1·2*
8 Coal and coke	1,559·8	8·5	*1*	(20)	..
9 Cotton	1,424·2	870·6	*61*	(5)	*4·3*
10 Iron Ore	1,414·7	695·1	*49*	(8)	*3·4*
11 Sugar	1,139·4	885·6	*78*	(4)	*4·4*
12 Wheat	1,047·1	148·8	*14*	(18)	*0·7*
13 Rubber (incl. synthetic)	1,011·5	763·9	*75*	(7)	*3·8*
14 Maize	879·8	179·5	*20*	(17)	*0·9*
15 Aluminium[2]	868·4	215·5	*25*	(16)	*1·1*
16 Tobacco	794·1	238·2	*30*	(15)	*1·2*
17 Cocoa (incl. butter & powder)	516·2	440·2	*85*	(10)	*2·2*
18 Tea and maté	466·1	439·5	*94*	(11)	*2·2*
19 Lead and Zinc[2]	454·4	131·8	*29*	(19)	*0·6*
20 Tin	349·2	270·9	*78*	(13)	*1·3*
Total 20 items	32,867·3	16,658·8	*51*		*82·0*
All other items	13,652·9	3,653·6	*27*		*18·0*
Total all items	46,520·2	20,312·4	*44*		*100·0*
11 Selected items	19,410·7	14,117·8	*73*		*69·6*

Notes: [1]EEC, EFTA, USA, Canada, Japan, Iceland, Ireland, Turkey.
[2]Ore, metal, and alloys.
[3]Incl, seeds, nuts, kernels.

Source: UNCTAD document E/CONF 46/47.

(a) Petroleum

The product

Petroleum is the most important single commodity in international trade. It has been estimated that crude oil and oil products account for more than one-half of international trade in tonnage and nearly one-tenth in value. In 1963, about one-half of world production was traded. 73% of the amount traded was accounted for by crude oil and the remainder by refined products.

By-products of petroleum and natural gas provide a large proportion of the basic materials for a group of rapidly growing industries, including fertilisers, plastics, man-made fibres, and synthetic rubber. Petroleum is, therefore, the origin of most synthetic products which are in competition with natural materials.

Countries of supply

Approximately two-thirds of all oil produced comes from LDCs. The largest oil-producing countries in 1965 were the USA, the USSR, and Venezuela, followed by four Middle Eastern countries: Kuwait, Saudi Arabia, Iran, and Iraq (see Table 7). Together these account for approximately 82% of total world production. The USA has been the largest oil producer since the First World War, but in spite of increased output, its share of world production has been decreasing. Current US output still accounts for about one-quarter of the world total, although only one-tenth of all proved reserves are situated there. Mandatory controls have restricted US oil imports since 1959, although there was some relaxation in respect of product imports in March 1966. The Middle East's share of world production rose to 28% in 1965. Proved reserves in the area account for 60% of the world total.

For Kuwait, Libya, Saudi Arabia, Iraq, Venezuela, and Iran oil comprises over 85% of total export earnings, for Indonesia nearly 40%. Libya is now one of the leading oil producers in Africa, although production only began in 1959.

The main exporting areas of crude oil are the Middle East, North Africa, and the Caribbean, and of refined oil products the Caribbean, the Middle East, and the USSR (see Table 7).

Importing areas

The main importing areas are Western Europe, the USA, and Japan. Trading patterns of oil are roughly as follow:—

(i) Middle East—to Western Europe, Japan, Australasia, and other countries in the Far East and the Indian Ocean.

(ii) Caribbean—to USA, Western Europe, Canada, and some Latin American countries.

(iii) North Africa—almost entirely to Western Europe.

Table 7 PETROLEUM: Production 1960 and 1965; Exports and Imports 1965

(million long tons)

	Production Crude 1960	Production Crude 1965	Imports Crude 1965	Imports Products 1965	Exports Crude 1965	Exports Products 1965
USA	381·1	429·2	61·7	63·2	0·2	10·0
Canada	26·0	44·0	20·0	7·5	14·2	1·2
Caribbean[1]	162·2	198·2	8·0	1·7	82·5	85·5
Other Western *Hemisphere*	31·9	42·9	18·0	6·5	1·0	2·0
Western Europe	15·1	21·9	328·5	49·2	0·2	8·0
Middle East[2]	257·7	408·9	0·5	1·0	331·2	41·2
North Africa[3]	11·8	90·2	6·0	2·2	83·7	2·0
West Africa	1·8	15·4	7·0	4·0	14·2	2·5
East and South Africa, South Asia	..	..	17·5	8·2	..	1·0
Japan	24·8	29·2	71·5	16·0	..	1·2
Australasia	..	..	17·7	2·2	..	0·7
USSR, Eastern Europe, China	164·6	264·0	..	..	25·0	19·7
Other	1·8	5·1	10·0	18·5	14·0	5.2
Total	1,078·8	1,549·0	566·4	180·2	566·2	180·2
[1]of which, Venezuela	148·6	181·3				
[2]of which the 'Big Four' Iran, Iraq, Kuwait, and Saudi Arabia	240·2	363·2				
[3]of which Libya	..	67·7				

Source: Compiled from British Petroleum *Statistical Review of the World Oil Industry 1965.*

The market

During the past decade world consumption of petroleum has doubled and has grown faster than consumption of energy as a whole. In recent years there has tended to be a surplus of crude oil supplies and marked pressure on crude oil prices. A considerable amount of crude oil is sold at a discount from posted prices.

The Organisation of Petroleum Exporting Countries (OPEC) was formed in 1960 with the immediate and specific objective of co-ordinating those countries' policies aimed at strengthening prices. Its members are:

Indonesia
Iran
Iraq
Kuwait
Libya
Qatar
Saudi Arabia
Venezuela.

These account for approximately 43% of world production, 85% of world exports, and 70% of reserves.

OPEC members have taken steps to protect the incomes of producing countries by securing alterations to the treatment of royalties for tax purposes. The general downward trend of prices has caused OPEC to try and allocate production quotas between the members.

(b) Copper

The product

Copper is used chiefly as an electricity conductor, as an alloy with other non-ferrous metals to make e.g. brass, and also in electro-plating. Roughly one-half of the world output of copper is used in the electrical engineering industry. Here copper has faced severe competition from aluminium, especially in overhead power transmission lines. Plastic and stainless steel are also substitutes for copper in building, food processing, and chemical engineering.

Producing countries

Total mine production of copper ore is divided approximately equally between developed countries and LDCs: each group producing about 42% of the world total. The remainder is produced by the centrally planned countries. The USA produces almost one-quarter of the world total (see Table 8). The main LDC producers are Zambia and Chile.

Currently, the LDCs refine just under one-half of their copper output and the rest is shipped to developed countries for refining either as blister copper[1] or in crude forms (ores, concentrates, etc.). LDCs provide almost one-fifth of world refined production.

Consuming countries

Approximately 80% of the world output of refined copper is consumed by the developed countries. Almost 30% is consumed by the USA. LDCs account for approximately 4% of world consumption of copper. Of the three main consuming areas, Western Europe, the USA, and Japan, the last has shown the largest rate of increase in imports of copper in recent years.

The market

A large part of the expansion of world copper consumption in the 1960s has been met by increased production within the consuming countries. This has meant that international trade in copper has expanded at a lower rate than world consumption. Western Europe is by far the largest market for copper from the LDCs. Zambia and Chile are the world's two major exporters of copper, with Zambia the larger during 1964 and

1. Blister copper is partly refined copper.

Table 8 **COPPER: Production 1961 and 1964; Consumption 1961 and 1965**

(thousand long tons)

	World Mine Production			World Refined Production			World Refined Consumption	
	1961	1964		1961	1964		1961	1965
USA	1,040·3	1,113·2	USA	1,635·6	1,792·4	USA	1,306·1	1,770·6
Canada	392·0	438·5	Canada	362·8	364·2	UK	520·5	635·2
			West Germany	309·9	331·0	West Germany	553·0	540·7
			Japan	272·6	336·3	Japan	367·1	420·7
			UK	234·3	241·2	France	239·8	282·5
			Belgium	199·6	255·9	Italy	198·8	190·3
Total Developed Countries	1,816·0	1.972·6	**Total Developed Countries**	3,339·5	3,703·3	**Total Developed Countries**	3,823·0	4,656·3
Zambia	565·7	622·4	Zambia	412·3	489·3			
Chile	539·1	611·8	Chile	222·7	273·5			
Congo (Kinshasa)	290·6	272·3	Congo (K)	148·5	139·1			
Peru	195·0	175·0						
Total LDCs	1,850·0	1,972·6	**Total LDCs**	881·3	1,014·8	**Total LDCs**	1,82·8	267·2
USSR	531·5	605·3	USSR	639·7	738·2	USSR	661·2	738·2
Total Centrally Planned Countries	632·5	739·9	**Total Centrally Planned Countries**	824·0	953·7	**Total Centrally Planned Countries**	927·0	1059·1
Total	4,298·5	4,685·1	**Total**	5,044·8	5,671·8	**Total**	4,932·8	5,982·6

Source: Compiled from *World Non-Ferrous Metal Statistics.*

1965, but on a par during 1966 because of the effects of the Rhodesian UDI.

Between 1960 and 1965 the position of copper changed from one of potential over-supply to one of growing excess of demand over available supplies. During this period copper prices fluctuated very violently.

During most of 1960 and 1961 copper prices (outside the USA) were not controlled and the London Metal Exchange (LME) acted as the principal pricing mechanism. In the USA, a system of fixed producer prices has operated for many decades. During 1962 and 1963 the major copper mining companies outside the USA attempted, in general successfully, to stabilise prices on the LME by restricting their own output and by stock-piling copper in support of a 'pegged' price of £234 per long ton. In January 1964 as a result of unprecedented demand LME quotations broke through the 'pegged' price of £234, whereupon major producers outside the USA abandoned the LME system of pricing in favour of their own producer prices, of which the first level was £236, and which was estimated to cover about 88% of 'free' world primary production. Quotations on the LME continued to influence the price at which the remaining 12% of primary copper was sold as well as the bulk of secondary copper.[1]

Between the beginning of 1964 and April 1966 the LME price (cash wire bars) rose from £234 per long ton to an all-time peak of £790. During the same period the producer prices outside the USA rose from £236 to £336. In April 1966, the Chilean copper export price was raised to £496. As a result of this move the producer price system collapsed and Zambia and other producers, including Chile, reverted to selling on the basis of the LME, using the three-month sellers' quotation.

On 3 January 1967 the US producer price was £304 and the three-months sellers' price was £449.

These extreme price fluctuations have been caused by shortages resulting mainly from political disturbances and strikes rather than real shortages in supply. Nevertheless, although there may be adequate supplies of copper to meet rising consumption, the very high and fluctuating prices encourage substitution by metals with less volatile prices, especially by aluminium.

(c) Tin

The product

Tin is a metal used mainly in the manufacture of tinplate, solder, and white metal and as an alloy in bronze and babbitt.[2] Unlike copper, lead, zinc, and aluminium it is a characteristic of tin that it is a relatively small element in all its uses, with the broad exception of solder. Tin is associated with a high level of industrialisation to a greater degree than other non-

1. Secondary copper is derived from scrap and represents about 40% of the total usage of copper
2. Bronze is a mixture of copper and tin; babbitt is used for bearing linings.

ferrous metals in terms of *per capita* consumption. For many years the largest single use of tin has been in tinplate, accounting for some 40–50% of total tin consumption. A very large proportion of tinplate is used by the food canning industry. Solder is the second most important use for tin in terms of consumption. The chief competitors for the various uses of tin are steel, plastic, glass, aluminium, and chromium.

Countries of supply[1]

LDCs produced 94% of tin-in-concentrates in 1965 (see Table 9), of which the main producer is Malaysia, which produces over 40% of the world total. Bolivia and Indonesia are also leading producers. 64% of refined primary tin metal was produced in LDCs in 1965.

Table 9 **TIN: Production of Tin-in-Concentrates and Primary Tin Metal 1953-5, 1960, and 1965**

(thousand long tons)

	Production of Tin-in-Concentrates			Production of Primary Tin Metal		
	1953/5 (average)	1960	1965	1953/5 (average)	1960	1965
LDCs	160·4	129·6	142·8	73·9	85·3	92·8
of which: Bolivia	30·5	20·2	25·0	0·2	1·0	3·7
Congo (Kinshasa)	13·1	9·2	6·2	2·7	2·5	n.a.
Indonesia	34·3	22·6	14·7	1·3	1·9	n.a.
Malaysia	59·5	52·0	63·7	68.1	76·4	73·5
Nigeria	8·1	7·7	9·5	..	..	9·3
Thailand	10·3	12·1	19·0	..	0·2	5·5
Others	4·6	5·8	4·7	1·6	3·3	0·8
Developed Countries	8·6	6·9	9·8	99·8	60·6	51·3
of which: Australia	1·9	2·2	4·0	1·8	2·3	3·2
Belgium	..	..	..	10·3	8·2	4·2
Netherlands	..	..	..	27·3	6·4	18·1
South Africa[1]	1·7	1·5	2·1	0·8	0·7	0·9
United Kingdom	1·0	1·2	1·3	27·9	26·4	16·5
United States	0·1	1·2	1·3	29·1	13·5	3·1
Others	3·9	0·8	1·1	2·6	3·1	5·3
Total[2]	169·0	136·5	152·6	173·7	145·9	144·1
of which: *LDCs%*	*94·9*	*94·9*	*93·6*	*42·5*	*58·5*	*64·4*
Developed Countries%	*5·1*	*5·1*	*6·4*	*57·5*	*41·5*	*35·6*

Notes: [1] Including South West Africa.
[2]Excluding the Centrally Planned Countries.

Source: International Tin Council.

1. Figures in this paragraph do not include those of centrally planned economies.

Consumption[1]

Between 1953 and 1965 world consumption of tin increased by about 22% (see Table 10). In 1965 the USA accounted for some 35% of total tin consumption, the EEC for some 20%, and the developed countries as a whole accounted for over 90% of world tin consumption.

Table 10 TIN: Consumption of Primary Tin Metal 1953-5, 1960, and 1965

(thousand long tons)

	1953/5 (average)	1960	1965
LDCs	11·2	12·9	16·5
Developed Countries	123·4	154·4	147·5
of which: USA	56·1	51·5	58·6
Canada	3·9	3·9	4·9
EEC	23·7	49·3	33·3
UK	20·7	21·8	19·3
Japan	5·8	12·9	17·2
Others	13·2	15·0	14·2
Total[1]	134·6	162·1[2]	164·0
of which: *LDCs%*	*8·3*		*10·1*
Developed Countries%	*91·7*		*89·9*

Notes: [1]Excluding the Centrally Planned Countries.
[2]In 1960, some reported consumption figures for primary tin metal included a certain tonnage of smelted non-primary tin metal used in the manufacture of high-grade alloys for export. It is not possible to allocate the tonnages accurately to individual countries. Here, the tonnages are deducted from the grand totals, but are included within the figures.

Source: International Tin Council.

The market

In comparison with other non-ferrous metals, world tin production and consumption has for several decades presented a relatively static picture.

Production of tin has not grown steadily and production figures[1] for 1938 and 1965 are similar. However, production of tin has risen sharply during certain periods: first, in the late 1920s, secondly, in the years following the Depression, and thirdly, in the early years of the Second World War. Subsequently export controls have held back production in some countries. Consumption of primary tin metal has increased only slightly, while that of other non-ferrous metals has soared. Consumption is currently running ahead of production, the shortfall being met by releases from the US strategic stockpile.

1. Excluding the centrally planned economies.

International agreements

Since 1956 there have been three successive international tin agreements, combining a buffer stock scheme with export controls.

1. The 1956–61 agreement covered over 90% of non-Communist tin output. The USA, West Germany, and the Soviet bloc did not participate in the agreement. Despite the price fluctuations caused by the Suez crisis and increased sales on the 'free' market by the USSR, the agreement survived until 1961, helped by the imposition of more severe output quotas and by British and Dutch restrictions on imports of Soviet tin. In 1961 the agreement collapsed under the pressure of persistent high prices.

2. The second agreement came into force provisionally in July 1961 and definitively in February 1962 with the USA, West Germany, and the USSR still not members. The agreement was virtually inoperative from its inception, as the buffer stock was exhausted by continuing high prices in September 1962. Further difficulties were encountered by the US decision that over 40% of the US strategic tin stockpile was surplus to current requirements and should therefore be sold. Rates of release were subject to negotiation between the USA and the International Tin Council and sales from the stockpile began in September 1962.

3. The third agreement came into effect provisionally in July 1966 and definitively in March 1967. The buffer stock price range was raised from the previous 'floor price' of £1,000 to £1,100 and the 'ceiling' price from £1,200 to £1,400. This agreement survived its first year well. The members of the Third International Tin Agreement are:

Consumers	*Producers*
Australia	Bolivia
Austria	Congo (Kinshasa)
Belgium/Luxembourg	Indonesia
Canada	Malaysia
Czechoslovakia	Nigeria
Denmark	Thailand
France	
India	
Italy	
Japan	
Korea (South)	
Mexico	
Netherlands	
Spain	
Turkey	
UK	

Table 11 **Floor and Ceiling Prices of Tin Buffer Stock—1st, 2nd, & 3rd Agreements**

Dates Operative	Floor Price	Ceiling Price
	£	£
July 1956—March 1957	640	880
March 1957—Jan. 1962	730	880
Jan. 1962—Dec. 1963	790	965
Dec. 1963—Nov. 1964	850	1,000
Nov. 1964—July 1966	1,000	1,200
July 1966—to date	1,100	1,400

(d) Lead and Zinc

The products

Although LDCs provide only a minor share of the world's lead and zinc, these metals have been included since they are subject to international discussion under the aegis of an International Study Group.[1]

Lead and zinc are usually found together in the same deposit in varying proportions. It is estimated that about 75% of lead ore is mined in conjunction with zinc ore.

Lead is mainly used for storage batteries, cable sheaths, sheet and pipes, and in the manufacture of petraethyl lead. Other uses include radiation shielding, bearings, solder, and ammunition. Batteries are the main outlet, accounting for about 30% of world consumption. There are five main uses for zinc: as a protective coating for steel, in pressure die-casting,[2] as a constituent of brass, and in making zinc oxide[3] and zinc sheets. One-half of the zinc consumed is used for protective coating, mainly applied by galvanising. The second most important use for zinc in the UK is in brass,[4] in the USA for die-casting, and in Belgium, France, and Germany in sheet form.

Lead

Countries of supply

Figures for mine production, refined production, and refined consumption of lead are given in Table 12.

In 1965 LDCs accounted for approximately 25% of total mine production and the developed countries for about 48%. The leading producers among the LDCs are Mexico and Peru; and in the developed countries, Australia and the USA.

1. The International Lead and Zinc Study Group.
2. In pressure die-casting, zinc alloy is injected into a steel die to make possible the mass production of strong and accurate components.
3. Zinc oxide is primarily used in rubber and paint manufacture.
4. Brass is a zinc and copper alloy.

Table 12 **LEAD: Mine Production 1961 and 1965; Refined Production 1961 and 1964; Consumption 1961 and 1964**

(thousand long tons)

World Mine Production	1961	1965	World Refined Production	1961	1964	World Refined Consumption	1961	1964
Australia	262·4	355·4	USA	529·6	520·3	USA	818·5	953·9
USA	243·6	280·1	West Germany	200·4	217·6	UK	271·4	302·9
Canada	163·0	271·0	Australia	179·0	219·8	West Germany	232·4	253·3
UK	1·5	0·1	Canada	153·4	135·1	France	161·3	169·4
			UK	131·6	177·3			
Total Developed Countries	1,104·3	1,307·6	**Total Developed Countries**	1,773·4	1,872·7	**Total Developed Countries**	2,101·1	2,399·5
Mexico	187·0	166·7						
Peru	128·2	167·7	Mexico	177·4	163·9			
Total LDCs	634·6	700·3	**Total LDCs**	379·8	416·3	**Total LDCs**	167·8	254·2
USSR	369·1	390·0	USSR	369·1	418·3	USSR	307·1	373·0
Total Centrally Planned Countries	658·4	705·6	**Total Centrally Planned Countries**	619·0	719·4	**Total Centrally Planned Countries**	575·7	672·8
Total	2.397·3	2.713·5	**Total**	2,772·2	3,008·4	**Total**	2,844·6	3,326·5

Source: *World Non-Ferrous Metal Statistics.*

13% of refined lead output is provided by LDCs, mostly by Mexico. 62% is provided by the developed countries, mainly by the USA, Australia, and West Germany.

Consumption

The consumption of refined lead has doubled since 1938. In 1964, approximately 72% of total refined lead output was consumed in developed countries and about 7% in LDCs. The leading consumer is the USA, with a consumption figure three times as large as the second on the list, the UK. In *per capita* terms, however, the UK has the highest total lead consumption in the world. Probably over 30% of the total amount of lead consumed annually is derived from scrap.

Zinc

Countries of supply

Figures corresponding to those given for lead are shown in Table 13. LDCs account for about 20% of total zinc ore output and about 6% of total refined (slab) output. Mexico and Peru are the largest producers of zinc ore amongst the LDCs.

Developed countries provide approximately 58% of total zinc ore output, the leading producers being Canada and the USA. 71% of total slab zinc output comes from the developed countries. By far the largest producer of slab zinc is the USA, followed by Japan and Canada.

The USSR and Poland are the largest producers among the centrally planned countries of both ore and slab.

Production expanded in the LDCs at about the same rate as in the developed countries between 1960 and 1966.

Consumption

The growth in the consumption of slab zinc has been even more dramatic than that of lead. Consumption of zinc has increased faster than all other non-ferrous metals (except aluminium) and since 1938 the world consumption figure has almost trebled.

Approximately 75% of total zinc output is consumed in the developed countries and about 7% in LDCs. The strong rise in demand has been met by increased production and by small releases from non-commercial stocks.

The market for lead and zinc

New uses for both metals have been developed in the last thirty years which have more than offset the decline in traditional uses and this has contributed to the steadily growing demand for lead and zinc. On the supply side, since the post-war shortages and rationing due to the Korean

Table 13 **ZINC: Mine Production 1961 and 1964; Slab Production 1961 and 1965; Consumption 1961 and 1964**

(thousand long tons)

	World Mine Production			World Slab Production			World Slab Consumption	
	1961	1964		1961	1965		1961	1964
Canada	395·7	656·5	USA	805·4	962·6	USA	824·7	1071·3
USA	455·7	564·1	Japan	209·1	361·1	Japan	239·2	350·3
Australia	288·2	313·5	Canada	239·2	319·9	West Germany	301·2	315·4
Japan	165·5	213·1	Belgium	240·2	234·3	UK	254·6	283·6
UK	..	..	West Germany	191·4	179·3	France	185·7	200·4
			France	159·4	189·0			
			UK	92·9	105·1			
Total Developed Countries	1,880·9	2,340·9	**Total Developed Countries**	2,344·4	2,831·4	**Total Developed Countries**	2,359·4	2,913·7
Mexico	254·0	224·7						
Peru	171·1	267·7						
Total LDCs	726·8	807·6	**Total LDCs**	184·9	244·7	**Total LDCs**	185·7	267·6
USSR	374·0	433·1	USSR	398·6	452·4	USSR	353·3	376·0
Poland	137·0	147·6	Poland	179·1	187·4	Poland	103·3	114·2
Total Centrally Planned Countries	760·9	849·7	**Total Centrally Planned Countries**	758·6	878·8	**Total Centrally Planned Countries**	653·4	721·5
Total	3,368·5	3,998·2	**Total**	3,287·9	3,954·9	**Total**	3,198·5	3 902·8

Source: *World Non-Ferrous Metal Statistics.*

war, supplies of both metals have always been adequate. Indeed, the problem could be one of potential surplus, dependent on the policies adopted by the USA towards sales of the very large surplus strategic stockpiles of lead and zinc. Although lead and zinc prices have fluctuated, the periods of exceptionally high prices have not been long enough to encourage very substantial substitution. The main competitors are generally aluminium and plastics. Additionally, the variety and range of industries in which lead and zinc are used has helped to keep prices relatively stable.

In 1964 prices for both lead and zinc were however unusually high. Fear of substitution led to a producer price system for zinc sold outside the USA. The producer price has subsequently been lowered, but has not been broken by the ensuing general downward pressure on zinc prices. The producer price governs the bulk of all sales of slab zinc outside North America. As a result the London Metal Exchange quotation now applies mainly to Soviet bloc imports and scrap metal. Generally the LME quotation has remained fairly close to the producer basis price.

The LME quotation for lead has shown wider fluctuations in recent years. Many countries have, to a greater or lesser degree, internal price levels which are different from that of the LME, but outside the dollar area, at any rate, LME quotations are still a basis for much of the world trade in lead. There has been talk of the possibility of establishing a producer price system for lead, but the prevalence of scrap would make this very difficult.[1]

In North America sales are generally based on the US average producer price. US prices have shown greater long-term stability than LME quotations since the war, although they have been at higher levels, US markets being isolated by import quotas for much of the time.

(e) Rubber

The product

Natural rubber is made from the latex extracted from rubber trees by 'tapping'. Trees are grown either from seed or by grafting and are first tapped when they are about six to seven years old (technically, when the diameter of the tree is 20″ at a height of 6′ above the ground). Latex is quickly processed into one of several forms of dry rubber, or is concentrated for shipment in liquid form. Liquid latex is used for foam rubber, rubber gloves, balloons, etc. Car tyres are an example of a product made from dry rubber.

Countries of supply

Natural rubber comes entirely from LDCs. A list of producing countries is shown in Table 14 with the countries of South-East Asia producing

1. 40–50% of the lead consumed in the UK is derived from scrap.

over 90% of the total. Almost all natural rubber produced enters into international trade and total net exports are therefore closely correlated with production.

Table 14 NATURAL RUBBER: Production 1960 and 1965

(thousand metric tons)

	1960	1965[1]
Malaysia	790	940
Indonesia	620	680
Thailand	171	210
Ceylon	99	117
Rep. of Vietnam	77	67
Cambodia	37	49
India	25	49
Other Asia and Oceania	23	26
Africa	149	157
Latin America[1]	30	36
Total	2,021	2,331

Note: [1]Estimates.

Source: UNCTAD document TD/B/C.1/PSC/7.

Importing countries

The main importing areas of the world are given in the following list which shows the approximate percentage shares of each of these in total rubber imports in 1965:

USA	18%
EEC	17%
USSR	11%
Japan	9%
UK	8%
China	6%

The market

World production of natural rubber increased by approximately 2% p.a. between 1960 and 1965. The greater part of this increase came from Malaysia and Thailand. The increase in world production has been due primarily to the 'coming into tapping' of areas replanted with trees giving a greater yield and to a lesser degree to an extension of acreage. Over the period 1960–5 the supply of natural rubber was augmented by releases from government stockpiles of the USA and the UK.

Since natural rubber is one of the primary commodities which is in severe competition with substitutes, i.e. the various synthetic rubbers, these latter are usually considered in conjunction with natural rubber.

Excluding Eastern Europe and Mainland China, synthetic rubber production increased by an average of approximately 9% p.a. between 1960 and 1965. Production figures for synthetic rubber are given in Table 15. All synthetic rubber is produced in developed countries and only 30% of the total produced in 1965 was traded internationally. The USA is by far the largest producer and exporter of synthetic rubber, although the US share in world exports of synthetic rubber dropped from 63% to 34% between 1960 and 1965.

Table 15 SYNTHETIC RUBBER: Production 1960 and 1965

(thousand metric tons)

	1960	1965[1]
USA	1,460	1,830
Canada	162	206
West Germany	81	160
UK	92	173
Italy	67	118
France	17	150
Netherlands[1]	12	102
Japan	19	167
Australia	..	20
Brazil	..	35
India	..	17
Belgium[1]	..	21
South Africa	..	16
Argentina[1]	..	10
Sub-total	1,910	3,025
Eastern Europe:		
Czechoslovakia[1]	..	30
East Germany	87	95
Poland	20	40
Romania	..	30
Sub-total	107	195
Total	2,017	3,220

Note: [1]Estimates.

Source: UNCTAD document TD/B/C.1/PSC/7.

By 1965, the share of synthetic rubber in total rubber consumption exceeded 62%, compared with 37% in 1953–5. Corresponding national percentage figures do of course vary considerably. For example, in 1964 consumption of natural rubber accounted for 25% of total rubber consumption in the USA, whereas the comparable figure for India was 81%.

The main technical advantages of natural rubber are high gum tensile strength, high tear resistance, and high resilience. Styrene-butadiene rubber (SBR), which is currently one of the most important of the general purpose synthetic rubbers, is superior to natural rubber in wear resistance, groove cracking resilience, ageing resistance, constant quality, and easier extension with oil and carbon black. Car tyres are an example of a product made both from natural and synthetic rubber, but the two are not yet wholly substitutable since heavy-duty tyres still depend on natural rubber.

Unlike natural rubber, synthetic rubber is not traded through commodity markets and the listed prices are subject to negotiation between individual producers and consumers. Apart from reductions in price in 1961 and 1967, the listed price of the standard form (1500) of SBR has varied very little.

Table 16 NATURAL AND SYNTHETIC RUBBER: Consumption 1958-60 and 1963-5

(thousand metric tons)

	Natural Rubber		Synthetic Rubber	
	1958-60 (average)	1963-5 (average)	1958-60 (average)	1963-5 (average)
USA	514 *(25%)*	494 *(21%)*	1,027 *(66%)*	1,447 *(54%)*
Japan	153 *(7%)*	199 *(9%)*	38 *(2%)*	155 *(6%)*
Western Europe	665 *(32%)*	717 *(31%)*	334 *(21%)*	717 *(27%)*
E. Europe and Mainland China[1]	449 *(21%)*	518 *(22%)*	10 *(..%)*	38 *(..%)*
Rest of World	319 *(15%)*	387 *(17%)*	156 *(10%)*	328 *(12%)*
Total	2,100 *(100%)*	2,315 *(100%)*	1,565 *(99%)*	2,685 *(99%)*

Note: [1]Inadequate consumption data for Mainland China in synthetic rubber.

Source: Compiled from UNCTAD document TD/B/C.1.PSC/7.

On the other hand, the market price of natural rubber has declined steadily since 1960. One of the major factors dominating the present world supply and demand position for all rubbers appears to be the existence of substantial surplus production capacity for synthetic rubber. This has led to intense competition between various synthetic rubbers, involving very considerable discounts below listed prices. This in turn has been a significant factor in depressing the price of natural rubber to an artificially low level. However, this low price is still sufficient to cover the cost of producing natural rubber from the recently introduced high-yielding trees.

(f) Cotton

The product

Cotton is a fibre (more accurately a seed hair) which grows profusely over the surface of the seeds produced by the cotton plant. This is a perennial plant usually cultivated as an annual. The best types are produced in sub-tropical areas where there is substantial moisture in the growing season and the ripening and picking seasons are warm and dry. The two main types of cultivated cotton are:

1. Gossypium hirsutum: to which the 'American Upland' group of cotton belongs.
2. Gossypium barbadense: a generally finer and larger type producing the highest qualities of cotton (e.g. Sea Island Cotton) for use in the finest and strongest yarns.

Other important varieties are G. arboreum and G. herbaceum. These are shorter and coarser than the American Upland cotton and are generally spun into coarse counts of yarn where high strength is not essential. In 1964/5 long staple cotton ($1\frac{1}{8}''$–$1\frac{3}{8}''$) and extra long staple cotton ($1\frac{3}{8}''$ and over), which are the most expensive types of cotton, accounted for about 13% of total world production.

The cultivation of the crop may be over large tracts such as the 'cotton belt' of the United States, or on large-scale plantations such as the Gezira area of the Sudan, or on collective farms in those countries with centrally planned economies. In the LDCs it is chiefly grown on small plots as a cash crop.

When picked from the plant, cotton is in the seed and requires separating into lint (or raw cotton) and cotton seed. The process requires special machinery and is known as 'ginning' and after this the raw cotton is baled to high density so that it can be stored and marketed when convenient. Cottonseed yields linters, oil, and cake. Cotton is used predominantly in the manufacture of clothing and household goods, although it has considerable importance in certain industrial uses, including cable insulation, webbing, etc.

Countries of supply

Cotton is grown in over 60 countries, nearly all of which are LDCs. The chief producers are the USA (which produced about 30% of the world total in 1964/5), the USSR, China, India, Mexico, the UAR, Brazil, and Pakistan (see Table 17). The long staple types are produced mainly in the UAR, Sudan, and Peru. G. arboreum and G. herbaceum are grown in India, Pakistan, China, and Burma.

Importing countries

The main importers of cotton are the EEC countries, which together account for approximately 22% of world imports. Eastern Europe, including the USSR, accounts for some 19% and Japan also for 19%. In 1965, the developed countries accounted for about 60% of world imports and the LDCs and centrally planned countries for about 20% each.

Table 17 **COTTON: Production, Exports, and Imports 1959/60 and 1964/5[1]**

(one thousand bales)[2]

	Production		Exports		Imports[3]	
	1959/60	1964/5	1959/60	1964/5	1959/60	1964/5
USA	14,555	15,245	7,182	4,060	..	..
France	..	..	..	..	1,509	1,089
West Germany	..	..	..	..	1,699	1,298
UK	..	..	..	..	1,401	963
Japan	..	..	..	..	3,290	3,431
Total Developed Countries	15,196	16,025	7,341	4,267	11,633	10,570
India	3,350	4,920	..	..	..	..
Mexico	1,660	2,395	1,298	1,608	..	..
UAR	2,109	2,325	1,845	1,565	..	..
Brazil	1,700	2,075	448	1,044	..	..
Pakistan	1,360	1,750	..	..	..	..
Total LDCs	16,073	22,161	7,890	10,365	2,734	3,590
USSR	7,400	8,300	1,800	2,100	..	..
China	8,500	5,500	..	..	..	..
Total Centrally Planned Countries	16,013	13,905	2,082	2,105	3,027	3,359
Total	47,282	52,091	17,313	16,737	17,394	17,519

Notes: [1]Cotton refers to ginned lint or raw cotton only.
[2]Figures in bales refer to 478 lb. net weight bales.
[3]It should be remembered that .. = nil; or negligible *in relation to table* (see List of Abbreviations).

Source: Figures calculated from *Quarterly Bulletin* of the International Cotton Advisory Committee.

The market

There is at present a prevailing tendency for world cotton production to outstrip consumption. World consumption of all fibres is at an unprecedentedly high level, but cotton is in severe competition with man-made fibres, especially the non-cellulosics. Although world production of cotton has increased substantially over the past decade, cotton's share of the fibre market has been steadily decreasing, and at less than 62% of the fibre market in 1964 was 10% lower than a decade earlier. The expansion in cotton production has been due primarily to the steady increase in world average yield per acre in recent years and it has been estimated that nearly 85% of the increase in production in the sixties is attributable to an improvement in yields. Acreage has also expanded, particularly in the Central American countries, the Middle East, India, Pakistan, and Brazil, and certain African countries.

In recent years the USA, which is the largest producer and exporter of cotton, has been in the position of residual supplier as a result of its export policies. Since 1955 the US authorities have operated special export programmes, including subsidy arrangements, under which cotton has been sold at a fixed price which other producers could usually undersell. Until 1964 this fixed export price was well below the supported price for cotton paid by domestic users. In 1964, subsidies were extended to cover domestic consumption as well as exports. The share of the USA in the world cotton trade has dropped from approximately 40% in 1960/1 to less than 25% in 1964/5. Consequent difficulties, including a heavy burden of stocks, have resulted in new legislation relating to cotton for the 1966–9 crop years. This aims at curbing excessive domestic production and has also lowered the price for cotton for domestic users and for export. It is expected that this will result in lower world prices for cotton generally.

(g) Vegetable Oils

The products

Despite the fact that improved processing methods have made the different vegetable oils largely and increasingly interchangeable, it is possible to distinguish three broad groups:

1. The 'edible' group: comprising principally groundnut,* soya bean,* cottonseed,* rapeseed, sunflower,* sesame, and olive oils.
2. The 'edible-industrial' group: hard oils—palm,* palm kernel,* and coconut* oils. Used for margarine manufacture as well as more specialised food uses and also for soap, chemical, and synthetic detergent production.
3. The 'industrial' group: comprising mainly linseed,* tung, and castor oils, which are used chiefly as drying agents or lubricants. (Castor oil is now being used on a large scale in the manufacture of special types of nylon.)

Countries of supply

The eight oils marked with an asterisk (*) account for about 90% of international trade in oil. A list of the principal producers of the seeds, nuts, and kernels from which these oils are derived is shown in Table 18. Rapeseed and castor seed are also included in the table. The USA alone was responsible for about 30% of world exports in 1964. The share of net exports of principal vegetable oils from LDCs in total net exports of vegetable oils has fallen from approximately 68% in 1958 to 64% in 1964. Net exports from the centrally planned countries fell in the same period from about 9% to under 7%. *Coconut, groundnut, palm, and* palm kernel oils are exported almost entirely by LDCs.

Importing countries

The major importing areas are the EEC, Japan, and the United States.

The market

The price of oils as a group has been fairly stable since 1950. This indicates that the virtually continuous growth in total production and export supplies has been approximately in line with the growth of demand for these oils. It seems that the existence of such a variety of oils or fats and the fact that they are to a large extent interchangeable, and in addition that a large number of producing countries are involved in the trade, have tended to provide some degree of insurance against wide overall fluctuations. The price of individual fats and oils, however, may fluctuate considerably, e.g. as groundnut oil, soya bean oil, and coconut oil have done over the period 1953–1964. Fluctuations may not always be caused by a change in the demand for a particular oil. The market for some oils is influenced very closely by its connection with related products whose production is linked with other demands. For example, soya beans are grown very largely for their use in the production of animal feeding stuffs. This in itself is geared to the world demand for meat and poultry. Thus the production of soya oil (a by-product of the soya bean) is influenced far more strongly by world demand for meat than by world demand for the oil itself. The share of these by-products[1] in the total supply of oils and fats[2] is increasing and rose from 20% in 1950 to 38% in 1962.

Government intervention at some stage of the production and domestic marketing process is a feature common to most exporting countries. In most cases these interventions include some attempt to stabilise producer prices.

Preferential arrangements exist between France and her former colonies for the marketing of groundnuts, though these should be phased out by the end of 1967. They also exist between the United States and the Philippines for coconut oil. UK imports from Commonwealth countries enjoy Commonwealth preferences. In addition, the Common External Tariff of the EEC for fats and oils grants preferential duty-free entry to oils from Associated States, but these will be affected by the Common Agricultural Policy (see Chapter 6).

1. E.g. lard and suet and cottonseed oil.
2. Including non-vegetable oils and fats.

Table 18 OILSEEDS, NUTS, and KERNELS: Principal Producers of Major Oils and Seeds in 1964 or 1964/5

The following tables are listed in order of decreasing magnitude of production. Since conversion rates vary considerably from seed to seed (e.g. approximately 45% for shelled groundnuts and 17% for soya beans) the oil equivalent may well result in a different order of magnitude. Conversion figures are given in brackets under the name of the seed. These percentage rates represent world average yields for commercial crushings, though this may vary from country to country.

(in thousands tons)

Soya Beans (*17%*)		1964/5
	USA	18,801
	China	(11,000)
	Brazil	450
	Indonesia	394
	Total Production	70,969
	Developed Countries	*60%*
	LDCs	*5%*
	Centrally Planned Countries	*35%*

Cotton Seed (*16%*)		1964/5
	USA	5,558
	USSR	3,425
	China	(2,350)
	India	1,730
	Mexico	954
	UAR	908
	Brazil	851
	Pakistan	749
	Total Production	20,194
	Developed Countries	*28%*
	LDCs	*44%*
	Centrally Planned Countries	*28%*

(Continued on next page)

Table 18 (Continued)

Groundnuts (unshelled) (shelled *45%*) (unshelled *32%*)		1964/5
	India	6,078
	China	(2,700)
	USA	984
	Nigeria	970
	Senegal	849
	Total Production	16,244
	Developed Countries	*8%*
	LDCs	*75%*
	Centrally Planned Countries	*17%*

Sunflower Seed (*35%*)		1964/5
	USSR	5,895
	Argentina	745
	Romania	510
	Total Production	8,274
	Developed Countries	*19%*
	LDCs	*2%*
	Centrally Planned Countries	*79%*

Rapeseed (*35%*)		1964/5
	India	1,353
	China	(1,100)
	Canada	295
	Japan	132
	Total Production	4,403
	Developed Countries	*24%*
	LDCs	*40%*
	Centrally Planned Countries	*36%*

Table 18 (Continued)

Copra *(64%)*		1964
	Philippines	1,400
	Indonesia	460
	Ceylon	(285)
	India	(285)
	Total Production	3,236
	LDCs	*100%*
Linseed *(34%)*		1964/5
	Argentina	802
	USA	610
	Canada	508
	India	458
	Total Production	3,223
	Developed Countries	*39%*
	LDCs	*47%*
	Centrally Planned Countries	*14%*
Palm Kernels *(47%)*		1964
	Nigeria	401
	Congo (Kinshasa)	(120)
	Dahomey	55
	Sierra Leone	53
	Total Production	836
	LDCs	*100%*
Palm Oil[1,2]		1964
	Congo (Kinshasa)	(205)
	Indonesia	158
	Nigeria	139
	Malaysia	120
	Total Production	698
	LDCs	*100%*

(Continued on next page)

Table 18 (Continued)

Castor Seed[3] *(45%)*		**1964/5**
	Brazil	305
	India	99
	Thailand	38
	Total Production	660

Notes: [1]Palm oil and palm kernel oil are both extracted from the fruit of the oil palm. The former is extracted from the outer pulp and the latter from the kernel.
[2]Figures on the production of palm oil are only available in 'oil' forms.
[3]Almost all castor seed is produced in LDCs. Small amounts are produced in the United States, South Africa, and Hungary.

Source: Compiled from Commonwealth Economic Committee, *Vegetable Oils and Oilseeds 1966.*

(h) Sugar

The product

Beet and cane sugar are interchangeable to a very large degree in their final use for direct consumption and confectionery manufacture. In 1965 beet sugar production accounted for approximately 40% of world production of centrifugal sugar. Beet is grown in temperate climates; sugar cane in tropical and sub-tropical regions.

Countries of supply

Sugar is produced in both developed and developing countries. The developed countries provide about 49%, the LDCs 28%, and the centrally planned countries 23% of total production. Table 19 shows the figures for production and export of sugar. The production of sugar cane is more widely spread than that of sugar beet. Approximately 96% of beet sugar is grown in developed countries. The major producers are the USSR, the USA, France, Germany, and Poland. The major sugar cane producing area is Central America and the Caribbean, which produces about 35% of world cane sugar. Asia produces about 25%, South America 20%, and the remainder is split fairly evenly between Africa and Oceania.

Table 19 SUGAR: Production, Exports, and Imports 1953–5 and 1965

(million metric tons)

	Production		Exports		Imports	
	1953–5	1965[1]	1953–5	1965[1]	1953–5	1965[1]
West Europe	6·83	8·72	1·71	1·66	4·39	4·89
N. America	2·36	3·89	0·03	0·02	3·50	3·47
Total Developed Countries	12·44	17·73	2·80	3·72	9·73	11·06
Cuba	4·73	6·00	4·77	5·10	..	..
Other South America	8·35	13·88	2·58	4·30	0·44	0·25
Asia	4·82	8·55	1·91	2·80	1·84	2·00
Africa	1·31	2·37	0·78	1·20	1·00	1·48
Total LDCs	19·21	30·80	10·04	13·40	3·28	3·73
USSR	3·43	8·22	0·21	0·73	0·66	2·20
Total Centrally Planned Countries	7·26	14·53	1·25	2·52	0·81	3·47
Total	38·91	63·06	14·09	19·64	13·82	18·26

Note: [1]Preliminary figures.

Source: FAO *Commodity Review 1966*.

Importing areas

The main importers of sugar are Western Europe (26% of total world sugar imports), the USA (19%), and the USSR (12%). The LDCs take 20%.

The market

The proportion of world trade in sugar to total production has gradually declined and in 1964 amounted to 28% of world production, an increasing proportion being conducted outside the 'free market'. There are three main trading agreements:

1. *Commonwealth Sugar Agreement* (*CSA*)

This agreement was signed in 1951 and operates on an eight-year cycle which may be renewed annually. The UK agrees to purchase given quantities of raw sugar annually from the Commonwealth sugar-producing territories at a fixed price, known as the 'negotiated price'. The present quotas total 1·7m long tons and the negotiated price (now fixed for three years at a time) stands at £43. 4*s*. 0*d*., plus a bonus of £4 for LDCs.

For an account of the working of this agreement, see Chapter 5, UK Import Policy.

2. *United States Trading Arrangements*

The USA has a long-standing arrangement to import raw sugar under quotas from its offshore territories and from certain other countries, notably the Philippines and Western Hemisphere countries. The 1966 quotas, out of a total sugar requirement of 9·8m short tons, were as follows:

Offshore territories	:		2·3 m.s.t.
Philippine Rep.	:	1·1 m.s.t.	
W. Hemisphere	:	1·9 m.s.t.	
Other countries	:	0·4 m.s.t.	
Total foreign countries	:		3·4 m.s.t.
Total			5·7 m.s.t.

The Cuban quota of about 1 m.s.t. is suspended and is shared out among other quota countries. US quota prices are related to domestic support prices for sugar. For a fuller account of the US quota system see Chapter 6.

3. *USSR/Cuba Trade Agreement*

Since 1951, the USSR has been both an importer and an exporter of substantial quantities of sugar. Recently, however, the USSR has been a net importer. From 1954 to 1959 the main origins of imports were Czechoslovakia and Poland; since 1959 the main source has been Cuba. Between 1959 and 1965 annual net imports ranged between 0·1 and 2·6 million metric tons.

In February 1960 Cuba entered into a trade and credit agreement with the USSR and in December 1960 the USSR expressed readiness to buy an additional 1·7m tons of sugar from Cuba if the USA were to discontinue buying Cuban sugar.

In 1964 it was unofficially reported that a USSR/Cuban trade agreement had been signed for 1965–70. The agreed price was well above the ruling world market price and very roughly in line with prices paid by the USA and the CSA negotiated price. Current exports from Cuba to the USSR are about 2m metric tons.

The free market

Between 1960 and 1965, the average annual negotiated price for imports from foreign exporters into the USA ranged from 5·25¢ to 7·17¢ per lb.: the 'negotiated price' in the CSA from 5·62 to 5·83¢ per lb.: and the price undertaken by the USSR for Cuban sugar has been 6¢.

The 'free market' for sugar—i.e. the market outside these three arrangements—accounts for under a third of the world net import requirements. Thus it supplies only marginal residual needs after the requirements of the two largest importers have been more or less met and is therefore liable to extreme price fluctuations. There have been various attempts to stabilise prices on this residual market.

1954 International Sugar Agreement

This agreement was made between all the more important exporters to the free market (except Brazil and Peru), and the principal importing countries. Prices were to be held within a given range by export quota controls. The Agreement was successful in maintaining a remarkably stable price level: average annual prices ranged from 3·24¢ per lb. in 1955 to 3·50¢ per lb. in 1958, despite the disruption caused by the Suez crisis.

1958 International Sugar Agreement

The International Agreement was renewed, without substantial changes, except that Brazil and Peru became members (so that the agreement then covered about 95% of the free market supplies) and also the basic quotas were fixed for three years only.

Before the 1961 Geneva Conference to fix new export quotas the Cuban revolution had taken place, resulting in the USA's prohibition of all imports from Cuba. The USA made good its deficiency by increasing domestic beet sugar production and by importing larger amounts of sugar from free market supplies. Cuba largely disposed of its supplies to the USSR and China.

1961 Conference at Geneva

The central issue at the Conference was the structural change in the international market which had come about as the result of the revolution in Cuba. This was reflected in argument about Cuba's quota claim which proved impossible to resolve. The Conference ended in complete deadlock. The economic clauses of the Agreement were suspended and regulation of the free market ended on 31 December 1961.

1965 Conference at Geneva

An International Conference was held in Geneva in 1965. It examined and discussed the Draft Agreement put forward by the International Sugar Council. General agreement was reached on the administrative aspects of the Agreement. On the economic aspects, however, discussions aimed at getting something more comprehensive than the conventional Price Stabilisation Agreement could not be brought to the point where they would have resulted in a definitive agreement. The Conference therefore adjourned without a new agreement, but it was decided that it should be reconvened as soon as there was a prospect of success.

In March 1966 a plan was agreed on by the Sugar Council Exporting Group by which:

(i) a floor price of £23. 5*s*. per ton was to be set;

(ii) exporters of sugar on a deferred pricing basis were to specify the final destination of the sugar.

This latter point was important, since it was thought that 'second-hand sugar' with no known final destination was one of the major factors depressing sugar values in the free market. Before the 450,000 tons already in the hands of middlemen dealers could be sold, however, and the agreement could therefore show its effect on price, Brazil was forced by its mounting stocks to sell 500,000 tons. The result was a lowering of price to a post-war low of £16 a ton.

Present situation

In 1967 the price on the free market reached its lowest point since 1945 —£12. 5*s*. a ton. Production in both cane and beet producing countries is reflecting the aftermath of the 1962–4 boom, during which prices increased more than fivefold, to an all-time peak of £105 a ton. Despite the fall in prices, world production has continued to rise faster than consumption. Visible stocks appear to be large, but stock figures must be offset against the current practice of selling ahead over considerable periods. The present situation clearly indicates lack of confidence in world markets and points to the conclusion that some regulation of world production and world markets is essential if prices are to be brought to a higher and more stable level on the world market—at least until the potential demand in less developed countries is realisable.

Table 20 **SUGAR: Stocks and Market Prices 1953-5 and 1957-61 averages, and 1962, 1964, and 1965.**

	1953–5 (average)	1957–61 (average)	1962	1964	1965 (preliminary)
Beginning stocks[1] World Total	11·2	13·2	13·5	9·7	18·0
World Market Prices[2,3] f.a.s. Cuba	3·30	3·49	2·78	5·72	2·0

Notes: [1]In million tons.
[2]US cents per lb.
[3]New York No. 4 spot price to 1960 and thereafter the International Sugar Council composite price.

Source: FAO, *Commodity Review 1966.*

(i) Coffee

The product

Coffee is a tree crop grown almost entirely in the LDCs. Coffee is grown on both plantations and peasant holdings. There are three main varieties:

(i) Mild arabicas
(ii) Unwashed arabicas[1]
(iii) Robustas.

Countries of supply

A list of the main producing countries is shown in Table 21, together with the volume of exports from these countries.

The three main types of coffee are broadly speaking distributed between supplying countries as follows:

(i)	Mild arabicas:	Central and South American countries other than Brazil; Kenya and most of Tanzania; Burundi, Rwanda, and India.
(ii)	Unwashed arabicas:	These constitute the great bulk of Brazil's output.
(iii)	Robustas:	Portuguese and formerly French territories of Africa and Uganda. Also Indonesia, Trinidad and Tobago.

Brazil supplies approximately one-third of all world coffee requirements, followed by Colombia, Ivory Coast, and Uganda. Together these countries supply over half the world's coffee. Six Latin American and six African countries customarily obtain 40% or more of their foreign exchange earnings from coffee.

Importing countries

Table 22 shows the imports of raw coffee into the principal importing countries. The United States alone absorbs over 50% of world coffee imports and the EEC countries approximately another 30%.

The market

As a result of the high world price for coffee in the early 1950s, which reached a peak in 1954, planting increased substantially throughout the remainder of the decade. Since trees usually take about five years to come into commercial bearing, this has resulted in a high level of production in the 1960s, which has led to the present situation of over-production. Annual world production is at present running at a level of between 70 and 80 million bags (60 kilos each) but annual consumption is no more than 50 million bags.[2] Despite over-production, however, prices in the early 1960s have been prevented from falling as much as might have been expected by international action resulting in the International Coffee Agreement of 1962.

1. Also referred to as Brazil arabicas or Brazils.
2. This does not include consumption in exporting countries.

Table 21 **COFFEE: Exports from Principal Producing Countries in 1964 and 1965**

(thousand cwt.)

	1964	1965
Angola	2,730	3,133
Brazil	17,652	15,923
Cameroon (E. Region)	879	840
Colombia	7,573	6,655
Congo (Kinshasa)	752	659[2]
Costa Rica	1,005	936[2]
Dominican Republic	669[2]	443[2]
Ecuador	495	903
El Salvador	2,061[2]	1,942
Ethiopia	1,457[2]	1,606[2]
Ghana	132	32
Guatemala	1,497	1,876
Haiti	446	471
Honduras	367	477
India	621	486
Indonesia	1,065[2]	491
Ivory Coast	4,021	3,654
Jamaica	19	13
Kenya	833[1]	744
Malagasy Republic	747	985
Mexico	1,986	1,537
Nicaragua	458	600[2]
Nigeria	90	7
Papua—New Guinea	173	219[2]
Peru	832	680
Rwanda, Burundi	519[2]	465[2]
Sierra Leone	119	83
Tanzania	659[1]	558
Togo	318	210
Uganda	2,752[1]	2,918
Venezuela	393	357[2]
Total	53,320	49,939

Notes: [1]Including inter-territorial trade.
[2]Provisional.

Source: Compiled from Commonwealth Economic Committee, *Tropical Products Quarterly.*

Table 22 COFFEE: Imports of Raw Coffee into the Principal Importing Countries 1964 and 1965

(thousand cwt.)

	1964	1965
Australia	275	281
Belgium	1,294	1,287
Canada	1,472	1,485
Denmark	951	973
France	4,538	4,272
Italy	2,350	2,369
Malaysia	110	56
Netherlands	1,630	1,627
New Zealand	59	70
Norway	652	565
South Africa	199	196
Sweden	1,798	1,807
Switzerland	709	870
United Kingdom	1,539	1,148
United States	26,954	25,145
West Germany	5,049	5,429
Total	49,579	47,580

Source: Commonwealth Economic Committee, *Tropical Products Quarterly.*

Price

The demand for Brazil arabicas is a residual demand, Milds being of superior quality. Thus it is the demand and supply for Brazil arabicas which sets the general price trend, over which the Milds command a premium. Robustas, which are mainly used for soluble coffee, largely have their own market but only at a lower price than Brazil's since, although robustas cannot be readily substituted for Brazils, Brazils, if cheap enough, can be largely substituted for robustas. Robustas have on the whole suffered from wider price fluctuations than arabicas.

International agreements

1957/8 An export quota agreement was signed at Mexico City between the more important Latin American producing countries.

1958 Mexico City agreement expanded into Latin American Coffee Agreement covering 15 countries.

1959 France and Portugal became members on behalf of their dependent territories, and Britain and Belgium promised that their African colonies would restrict exports in accordance with the Agreement.

1960 Britain joined as a full member and the renewed agreement formally covered about 90% of world exportable production.

1962 By 1962 world exportable production was some 60 million bags[1] as against world exports of 44 million bags *plus* additional accumulated stocks amounting to around 60 million bags (of which some 54 million were in Brazil, some 5 million in Colombia).

1962 *International Coffee Agreement* (to last 5 years) was designed to stabilise prices in the short and medium term through export quotas and to ensure that 'the general level of coffee prices does not decline below the level of such prices in 1962'.
It is now signed by 39 exporting countries and 23 importing countries, and covers some 98% of world trade.

In 1966 the International Coffee Organisation (ICO) agreed to strengthen the Agreements as follows:

1. A 'trigger price' was introduced so that a country's quota would be no longer rigidly fixed but tied to the price performance of the type of coffee it sells. A price above or below the defined range for 15 consecutive days would trigger an increase or decrease in the overall authorised exports of the member concerned of $2\frac{1}{2}$%.

2. The quota system was strengthened by the ICO issuing stamps to producers equivalent to the amount of coffee each country is allowed to export. In certain cases, producing countries may export a supplementary amount, the whole quota being subject to selective adjustment during the year; the annual quota cannot however be reduced.

3. Additionally, importing members have agreed to limit imports from non-member producers to the average level of their imports during the three years prior to the agreement.

4. Export 'waivers' have been granted to 18 countries for 1966/7. Such waivers will not be allowed in the third or fourth quarters of the year, however, until the country concerned has set aside 20% of foreign exchange earnings to be gained from these exports and put it towards a diversification and development fund, or alternatively sets aside an amount of coffee from its stocks equivalent to its third and fourth quarter waivers.

Table 23 COFFEE: Stocks in Producing Countries

(million bags)

1959/60	1960/1	1961/2	1962/3	1963/4	1964/5
37,178	47,657	58,716	65,720	64,607	69,087

Source: UNCTAD document TD/B/C.1/PSC/7.

1. *Average* world exportable production between 1960/1 and 1964/5 was, however, lower, running at some 51 million bags.

(j) Cocoa

The product

Cocoa is a tree crop which comes into bearing some three to seven years after planting. Production increases for 10 to 15 years and after about 30 to 40 years tends to decline. There are two principal commercial types of cocoa: fine grades (less than 10% of total world cocoa output) and basics.

In processing, the cocoa bean can be broken down into two parts (powder and cocoa butter) which are used either separately or together. Both parts can be used in chocolate and cocoa powder is a flavouring agent for many types of drinks and confectionery.

The main substitutes for cocoa are:

1. Other fats (especially treated) for cocoa fats.
2. Dilution of cocoa fats with small amounts of other fats.
3. Substitute sweeteners.

Countries of supply

Cocoa beans come entirely from LDCs. The main sources of production and export are shown in Table 24.

Ghana, Nigeria, Ivory Coast, and Brazil together produce approximately three-quarters of the world's cocoa. The same countries account for almost 80% of world exports. Over 50% of world production is collected and marketed by Marketing Boards.

Table 24 **COCOA: Production and Exports 1953–5, 1964, and 1965**

(thousand tons)

	Production[1]			Exports[2]		
	1953–5 (average)	1964	1965	1953–5	1964	1965
Brazil	159	117	160	117	75	75
Other Latin America	143	181	173	95	90	100
Ghana	232	580	422	222	388	480
Ivory Coast	—[3]	145	115	—[3]	122	124
Nigeria	97	298	188	99	200	305
Other Africa	164	171	162	167	136	156
Asia and Oceania	11	33	40	8	24	30
Total	806	1,525	1,260	708	1,035	1,270

Notes: [1]Seasons commencing 1 October of year stated.
[2]Calendar year.
[3]Ivory Coast figures not available 1953–5; included in Other Africa.

Source: FAO *Commodity Review 1966*, supplemented by Commonwealth Economic Committee *Tropical Products Quarterly*.

Importing countries

Table 25 shows the imports of cocoa beans into the principal importing countries. The USA imports almost 30%, followed by West Germany (approximately 14%) and the Netherlands (approximately 10%). Seventy per cent of 'grinding' is done in developed countries, approximately 17% in LDCs, and the remainder in the centrally planned countries.

Table 25 COCOA: Imports in 1953–5, 1964, and 1965[1]

(thousand tons)	1953–5	1964	1965
West Germany	74	143	167
Netherlands	59	106	119
United Kingdom	133	78	82
Other Western Europe	128	210	220
United States	239	271	360
Other	32	75	70
Total Developed Countries	665	883	1,018
Latin America	18	21	22
Asia and Africa	4	11	13
Total LDCs	22	32	35
Eastern Europe	15	59	70
USSR	17	66	90
China (Mainland)	..	5	12
Total Centrally Planned Countries	32	130	172
Total	719	1,045	1,225

Note: [1]Calendar years.

Source: FAO *Commodity Review 1966*, supplemented by Commonwealth Economic Committee *Tropical Products Quarterly*.

The market

An important feature of the cocoa market is the high geographic concentration of production and of consumption. This degree of concentration should make the conclusion of an international agreement for the product relatively easy, but attempts to reach such an agreement have not yet been successful.

Another important market factor is that the adjustment to price of demand for grindings and for final consumption takes place only after a considerable time lag (at least six to nine months). The 1950s and early 1960s have been a time of considerable price fluctuation, due to variations in output, coupled with the above-mentioned time lag.

Attempts at an international agreement

1. An unsuccessful conference was held in 1963. Consumers and producers could not agree on a 'floor price' at which quotas would be put in operation.

2. A Cocoa Producers' Alliance was signed for 1964/5 between Brazil, Cameroon, Ghana, Nigeria, and Togo which account for 80% of world production. It, too, was unsuccessful in stabilising the market price by limiting supplies.

3. Negotiations were held under UNCTAD auspices in May/June 1966 with a view to setting up an international commodity agreement on cocoa, based on a combination of a buffer stock scheme and export controls and including provisions for the disposal of surplus stocks. Agreement, however, could not be reached over the appropriate 'floor' price.

4. Discussions, under UNCTAD auspices, were renewed in 1967. Agreement has been reached on maximum and minimum prices for the buffer stock and an International Cocoa Conference is anticipated at the end of 1967.

(k) Tea

The product

Tea bushes were first cultivated in China and later in Japan. Tea growing became a commercial concern in India in the first half of the nineteenth century,[1] where it was developed as a plantation enterprise.[2] In China tea was, and is, largely grown on small-holdings. Tea growing soon spread to Ceylon, Indonesia, and other South-East Asian countries and more recently to certain African and Latin American countries. Tea bushes take at least six years to come into commercial bearing and are then commercially profitable for approximately 50 to 60 years.

Countries of supply

Seventy-three per cent of tea is grown in LDCs and 18% in the centrally planned countries. By far the largest producers are India and Ceylon, which in 1965 together accounted for 55% of world production. Although India produces nearly twice as much tea as Ceylon the volume of exports from both countries is fairly similar. East Africa produced about one half of the total of tea produced by African countries in 1964. Kenya is the largest producer and exporter in Africa.

Importing countries

The UK is by far the largest net importer of tea, accounting for some 40% of net tea imports. Seventy per cent of net tea imports are absorbed by the developed countries. (See Table 26.)

1. Indian tea was first sold at a public auction in London in 1839.
2. With the decision to introduce tea growing into India, it was found that wild tea bushes already grew in the Assam region.

Table 26 **TEA: Production, Exports, and Imports 1953–5 and 1965**

(thousand tons)

	Production		Exports		Imports	
	1953–5 (average)	1965[1]	1953–5 (average)	1965[1]	1953–5 (average)	1965[1]
India	274·0	365	199.0	212	—	—
Ceylon	164·8	228	160·2	218	—	—
Pakistan	24·4	27	9·1	3	—	—
Africa	25·0	66	20·7	53	50·7	63
Latin America	2·5	15	0·4	13	4·5	10
Total LDCs	581·7	796	436·7	546	94·3	131
Total Developed Countries	65·8	84	15·0	4	363·0	405[2]
Total Centrally Planned Countries	121·0	205	20·2	30	8·1	44
Total	768·5	1,085	471·9	580	465·4	580

Note: [1]Preliminary figures.
[2]Of which UK 236, USA 55, EEC 23.

Source: FAO *Commodity Review 1966.*

The market

Increased production of tea is due very largely to more intensive methods of growing and cultivation rather than to increased acreage. In the past decade production and consumption have generally been in balance, although production now seems to be running slightly ahead of consumption.

Tea is sold at regular public auctions in Calcutta,[1] Cochin, Chittagong, Colombo,[1] and Nairobi. Teas from all over the world are offered weekly in London[1].

Tea prices have shown an overall decline since 1953–5. In 1965 discussions took place in Ceylon with regard to the desirability of setting up an international agreement for tea. However, no preparation for an international agreement ensued from this meeting.

1. These are the main auctions.

4 Markets for LDC Exports of Manufactures

In 1964 LDC exports of manufactures and semi-manufactures[1] amounted to some US$5.5 billion. This represented some 5% of total world exports of manufactures and approximately 16% of total LDC exports.

Since the developed countries take nearly two-thirds of LDC exports of manufactures, it is worth examining the structure and size of this particular trade flow in greater detail.

One of the most striking characteristics of this flow is that, while the developed countries take such a large proportion of LDC exports of manufactures, these manufactures account on average for about 5% of total imports of manufactures into developed countries.[2]

LDC exports of manufactures are not widely and evenly spread between exporting LDCs. Ten countries—Hong Kong, India, Israel, Mexico, Iran, the Philippines, Pakistan, Taiwan, Argentina, and Brazil—provide nearly three-quarters of total LDC exports of manufactures to developed countries. Moreover Hong Kong and India, alone of the above, account for almost one-half of the total. (See Table 27.)

Table 27 Origin of Imports of Manufactures and Semi-manufactures Supplied to the Developed Countries from LDCs in 1964

Country	Value ($ million)	% of total
Hong Kong	634	*26·5*
India	445	*18·6*
Israel	137	*5·8*
Mexico	126	*5·3*
Iran	77	*3·2*
Philippines	72	*3·0*
Pakistan	64	*2·7*
Taiwan	68	*2·8*
Argentina	41	*1·7*
Brazil	32	*1·3*
Total 10 countries	1,696	*70·9*
Other LDCs	697	*29·1*
Total	2,393	*100·0*

Source: Compiled from UNCTAD document TD/B/82/Add2.

1. Manufactures and semi-manufactures are here defined by the following SITC groups:
SITC code 5: chemicals.
SITC code 6: manufactured goods classified chiefly by material.
SITC code 7: machinery and transport equipment.
SITC code 8: miscellaneous manufactured articles.
2. In the UK, however, 15% of total imports of manufactures comes from LDCs.

Nor is the *range* of manufactured products exported from LDCs wide. In 1964 more than 45% of manufactured goods imported by developed countries from LDCs consisted of textiles (including clothing). (See Table 28.) Nearly nine-tenths of this trade flow of manufactures is accounted for by some 20 items, of which a large proportion are textile goods, wood, and leather products. The principal classes of products exported by LDCs have been among the least dynamic elements in the import demand of developed countries.

Table 28 Imports of Textiles from LDCs by Developed Countries in 1964

Item	Value ($ million)	% of total	As % of total imports by developed countries of these products
Clothing (except fur clothing)	374	*15·6*	*21·1*
Textile fabrics other than cotton	220	*9·2*	*13·5*
Cotton fabrics, woven	192	*8·0*	*23·9*
Floor coverings, tapestries, etc.	121	*5·0*	*28·9*
Made-up articles, wholly or chiefly textile material n.e.s.	112	*4·7*	*22·2*
Textile yarn and thread	58	*2·4*	*5·0*
Special textile fabrics and related products	36	*1·5*	*9·9*
Total Textiles	1,113	*46·4*	*n.a.*[1]
Total all Manufactures	2,393	*100·0*	*4·9*

Note: [1]Figure not available from this source.

Source: Compiled from UNCTAD document TD/B/82/Add2.

Obstacles to expansion

Currently LDC exports of manufactures account for some 14% of LDC export earnings. Attempts by LDCs to increase the production and export of manufactures have shown clearly some of the difficulties which inhibit a faster growth rate. One of the most obvious obstacles to expansion is the lack of capital in LDCs. Another is the lack of skilled manpower in conjunction with a considerable dearth of managerial experience. Both these constitute fundamental constraints on supply but, since these can to some extent be ameliorated by financial and technical aid to the LDCs, discussion of them does not fall within the scope of this handbook. Assuming, however, that these shortages can be overcome, a further constraint lies in the difficulty of expanding LDC exports.

A serious barrier to the expansion of exports of manufactures from LDCs lies in the small size of most of their domestic markets. With a few exceptions, e.g. India, Brazil, and Mexico, LDC markets are small in terms of population and, even more important, in terms of purchasing power.

A small domestic market forces a new industry to look to exports to maintain an economic level of output. At the same time the lack of a domestic market which is capable of providing a measure of stability to set against export fluctuations tends to make reliance on exporting appear an unduly risky activity.[1]

Unless the new industry has a guaranteed export market,[2] the result of this inter-relationship between the domestic and export markets is likely to be an *impasse*, with the industry either closing down or running at an uneconomic level of output. The expansion of exports of manufactures from LDCs thus calls for the widening of both domestic and export markets.

The next section of this chapter gives examples of experiments in regional co-operation aimed at enlarging domestic markets in LDCs. It is followed by an explanation of the restrictive effect on industrialisation in LDCs of tariff barriers to their exports.

Regional Co-operation

The aim of regional co-operation is to combine several national domestic markets into a whole.[3] This is usually attempted through an agreement creating the conditions under which a customs union, free trade area, or common market[4] may be achieved. Some examples of regional co-operation between LDCs are given below.[5]

The Latin American Free Trade Association (LAFTA)

The Latin American Free Trade Association (LAFTA) was established by the Treaty of Montevideo in 1960. The original members of LAFTA were:

Argentina
Brazil
Chile
Mexico
Paraguay
Peru
Uruguay

Colombia and Ecuador joined in 1961 and Venezuela in 1966.[6]

The Treaty of Montevideo sets out to achieve a free trade area by 1973, through a series of tariff reductions. The Treaty requires that the weighted average of tariffs levied on imports of goods from other LAFTA countries should be reduced each year by 8% of the weighted average of tariffs on imports of these goods from all sources; so that tariffs on 'substantially all' goods traded within the area should be free of internal import duties by 1973.

1. Amongst the uncertainties inherent in exporting must be included the possibility of the intensification of quantitative restrictions imposed in export markets.
2. E.g. under a bilateral agreement.
3. This is of course not confined to LDCs.
4. For a definition of these associations see Glossary.
5. These examples should not be taken as comprehensive.
6. Bolivia has decided to accede to the Treaty of Montevideo, but is not yet a member.

These requirements are put into effect through National Schedules of tariff concessions negotiated bilaterally, product by product, but extended multilaterally to all other countries of the Association. Concessions granted in the National Schedule may be withdrawn by negotiation. In order to prevent such withdrawals from retarding the rate of progress in tariff reduction, it is further provided that a Common Schedule shall be drawn up every three years consolidating concessions granted over the preceding three-year period. The Common Schedule should include, at each round, 25% by value of all products traded within the area. Goods listed on the Common Schedule are duty-free throughout the area and any inclusion of products is irrevocable, unlike those on the National Schedule.

'Complementarity' agreements by which two or more countries with the same industry agree to divide up the manufacture of various parts of the final product have been considered, especially in relation to the 'intermediate' countries.[1] By the end of 1964 only two had been brought into effect.

Since the first tariff reductions came into effect at the beginning of 1962, trade between the LAFTA countries has grown substantially, although trade within LAFTA is still a small proportion of the total trade of member countries. In 1964 exports among LAFTA countries accounted for some 9% of total LAFTA exports to all countries (see Table 29).

Table 29 Trade among LAFTA Countries*

($ million)

	Exports f.o.b.	Imports c.i.f.	Exports as % of total Lafta exports to all countries
1961	299	360	*6·0*
1962	354	420	*6·8*
1963	425	525	*7·5*
1964	560	647	*9·2*
1965	639	769	*9·8*

*All present members except Venezuela.

Note: The excess of imports over exports seems greater than would be justified by differences in timing, and valuation must reflect statistical deficiencies. On an import basis, intra-LAFTA trade is a rather higher percentage of total trade.

Source: Bank of London and South America Limited.

In general terms the most prominent features of LAFTA trade since the inception of the Association have been the high proportion of intra-LAFTA trade accounted for by Argentina and Brazil—some 60% of all LAFTA imports and exports combined; the large proportionate increase in exports to LAFTA members by Mexico; the growing deficits of Colombia and Peru; and the consistent and large deficits of Chile and Uruguay.

1. Argentina, Brazil, and Mexico are known as the 'Big Three'; Chile, Colombia, Peru, and Uruguay as the 'intermediate countries'.

The main apparent weakness of the Treaty of Montevideo as an instrument for promoting free trade within the area is that obligations to liberalise trade extend only to products which are already being traded within the area.[1] Since primary commodities make up a very large part of intra-LAFTA trade it is mainly with regard to these that trade has been liberalised. While this is obviously not in itself a weakness, the composition of tariff concessions up to date does show the lack of incentive for any radical diversification in the structure of intra-LAFTA trade flows and also for any overall liberalisation of manufactures. Schedules do include manufactures, but tariff concessions have sometimes been withheld by countries when the product in question has been in competition with a domestically produced product. It is therefore possible for the requirements of the Treaty of Montevideo to be met while at the same time domestic industries in individual LAFTA countries remain protected.

Central American Common Market (CACM)

The members of the CACM are:

Costa Rica
El Salvador
Guatemala
Honduras
Nicaragua

The General Treaty of Central American Integration signed in Managua[2] in 1960 provided for the establishment of a free trade area by mid-1966 and the creation of a customs union at some later unspecified date. The Treaty provided for immediate free trade in all products originating in the region, with certain exceptions. This meant that about 50% of intra-regional trade was liberalised immediately. Trade in the remaining products was automatically to be freed by 1966 (except in cases where products proved eligible for temporary restrictions). Liberalisation was not subject to item-by-item negotiation as in LAFTA.

By the beginning of 1967 nearly all[3] tariff items in Central America had been included in the free trade category and a common tariff against the rest of the world was applied to over 80% of these items. It is hoped that the exceptions to the free trade category which include categories of commodities such as transport equipment, electric appliances, and petroleum[4] will be eliminated by 1970, by which time a common customs administration should have come into effect.

Between 1960 and 1964 the value of trade between members increased threefold (see Table 30). In 1965 intra-regional exports represented

1. A serious institutional weakness is the absence of any supra-national organ comparable to the European Commission of the EEC.
2. Costa Rica accepted the provisions of the Treaty of Managua in 1962.
3. Over 95%.
4. These commodities plus some agricultural products constitute approximately one-quarter of Central American imports.

about 50% of Central America's trade with the rest of the world. During the period 1960–5 the structure of intra-regional trade changed, showing an increase in trade in manufactures; which by 1965 accounted for 46% of intra-regional trade.

Table 30 Trade of Central America

($ million; percentages)

	Total exports	Intra-trade	Intra-trade as % of total exports
1950	278	8·3	*3·0*
1951	326	9·7	*3·0*
1952	359	10·3	*2·9*
1953	383	11·4	*3·0*
1954	406	13·4	*3·3*
1955	416	12·8	*3·1*
1956	434	13·5	*3·1*
1957	466	16·6	*3·6*
1958	448	20·5	*4·6*
1959	431	28·0	*6·5*
1960	435	30·3	*7·0*
1961	436	36·2	*8·3*
1962	510	47·6	*9·3*
1963	585	69·4	*11·9*
1964	648	95·0	*14·7*

Source: Sidney Dell, *A Latin American Common Market?*, Oxford University Press, 1966.

A Latin American Common Market

In April 1967 at Punta del Este, Uruguay,[1] an agreement was made to establish a Latin American Common Market by 1985 in which the existing organisation of the LAFTA and the CACM would be merged. President Johnson pledged the full support of the USA to forward this aim.[2]

The East African Common Market

The East African Common Market, comprising Kenya, Tanzania, and Uganda, began in the 1920s. The East African Common Services Organisation (EACSO) controls joint air services, railways, harbours, postal services, customs administration, and income tax. There is a common external tariff and in principle free trade within the area.

During the 1960s the East African Common Market has encountered difficulties caused chiefly by the different levels of industrialisation reached in the individual countries. In 1964 the Kampala agreement attempted to

1. This was a 'summit' meeting, between President Johnson and the Presidents of 17 of the Latin American countries which are members of the Organisation of American States.
2. No precise definition was given of the form which US support would take.

provide for a more 'equitable' distribution of industries between the three countries, but was never fully implemented. In 1966 the common currency arrangements for the area came to an end and temporary quotas were imposed on certain items in inter-territorial trade.

Despite this tendency towards more restrictionist policies in intra-trade, a treaty was signed at Kampala in June 1967 establishing an East African Economic Community and Common Market. This is intended to strengthen economic co-operation between the three countries. As aids to this end an East African Development Bank is to be established and further there are to be no more internal tariffs or quotas on intra-East African trade (except for the newly imposed transfer tax).[1] The introduction of the transfer tax is an attempt to promote balanced industrial development between the three countries.[2]

The East African Common Market countries have corporately applied to become Associate members of the EEC (see Chapter 6).

The Central African Economic and Customs Union (UDEAC)

Members: Cameroon
Congo (Brazzaville)
Gabon
Chad
Central African Republic

This Union entered into force in January 1966.[3] It provides for free internal movement of goods, a common external tariff for all items, and a common investment code. Products originating in the EEC countries and member countries of the Organisation of African and Malagasy States are exempted from the common external tariff of customs duties. The treaty provides for the establishment of a Central African Common Market.

The West African Customs Union

Members: Dahomey
Ivory Coast
Mali
Mauritius
Niger
Senegal
Upper Volta

This was established in 1959, and has suffered through the breakdown of the Mali Federation in 1959/60. Unilateral action as regards taxation and development policies have disrupted the market area to some extent. In March 1966 the original treaty was superseded by a new one providing the Union with permanent institutions and common rules regarding the treatment of imports both externally and within the region.

1. A few exceptions to this are allowed on a limited special list.
2. To impose this tax, a country must be in deficit with its partners and must have an industry large enough to warrant protection. If these conditions are fulfilled it can then impose a transfer tax on imports from its partners, up to one-half of the normal external customs tariff.
3. Originating from the Equatorial Customs Union, established in 1959.

The Arab Common Market

Members: Iraq
Jordan
Syria
United Arab Republic

The 1964 convention of the establishment of an Arab Common Market provided for a free trade area between member states.[1] It is hoped that it will lead to a customs union by 1974.

Restrictions on the Widening of Export Markets

The developed countries currently provide by far the largest market for LDC exports of manufactures and their growing markets are likely to continue to provide the largest export outlet for the LDCs. The developed countries' markets for manufactures are, however, protected against imports both by quantitative restrictions and by tariffs.

Quantitative restrictions on imports act directly to limit the volume of goods imported.[2] By comparison, import duties affect the volume of imports only indirectly, through the price mechanism. Quantitative restrictions are the most effective non-tariff barrier to imports. They can be used to supplement the general protection provided by the tariff and, in particular, to discriminate against or in favour of individual supplying countries in a way which a normal tariff structure would not permit. In general, quantitative restrictions do not conform to a pattern, as does the tariff, but are imposed *ad hoc* as the need arises. The few which are still maintained by developed countries are in many cases applied only against imports from 'low-cost' countries, i.e. mainly LDCs. Examples of quantitative restrictions are given in some detail in Chapter 5, on British trade policy, and also in Chapter 6. The use of quantitative restrictions generally conflicts with the rules of the GATT and this aspect is dealt with in Chapter 8.

Tariff levels in the developed countries are in general falling, because of successive GATT negotiations resulting in tariff cuts, the latest of which has been the Kennedy Round, which ended in June 1967. The estimated average tariffs of the USA, UK, and EEC on manufactures of export interest to the LDCs were in 1965[3] calculated to be 11·6%, 15·5%[4] and 11·9% respectively.[5]

Effective tariffs on value added

The nominal rates quoted above are not however always an adequate measure of the restrictive effects produced by a tariff. This is because

1. The second tariff reduction between members was carried out in January 1966.
2. Quantitative restrictions are imposed by import licensing, which often entails the use of global or individual country quotas.
3. I.e. before the Kennedy Round.
4. This refers to manufactures from non-Commonwealth countries only. Almost all manufactures from Commonwealth countries enter the UK duty-free. See Chapter 5.
5. Since there are several ways of estimating average tariffs, this should not be regarded as definitive.

the tariff tends to grow higher with each stage of processing.[1] The effect of this, for a country that imports a raw material, is to make the actual degree of protection of the processing element much higher than would appear from the nominal rate. What is in fact being protected is the *value added* to the raw material in the course of processing.

This aspect of tariff protection can be illustrated by a simple hypothetical example[2] of, say, a LDC exporting copper metal to a developed country, where the metal is transformed into copper wire. The developed country's import duty on copper metal is assumed to be zero and on copper wire 10%. As long as the LDC continues to export raw copper for transformation in the developed country, its exports are not subject to duty. If the LDC decides to add to the value of its copper exports by carrying out the wire-drawing process itself, its exports will face a tariff of 10%. This tariff will be levied on the total value of the copper wire, i.e. on the raw material value plus the value added in processing.

Since the LDC's decision to carry out the wire-drawing process incurs the loss of duty-free treatment for the raw material content of the wire, the entire duty must be accounted for as part of the processing cost. The burden of the duty would be calculated as follows:[3]

1 ton of copper metal at £400: Duty in importing country:	nil[4]
1 ton of copper wire at £480: Duty in importing country:	£48
Value added in processing £80: Additional duty incurred:	£48

Duty on value added $\frac{£48}{£80}=60\%$.

The rate of duty on value added, calculated as above, is known as the 'effective' rate of tariff protection (as opposed to the 'nominal' rate).[5] It shows the actual barrier to the establishment of a processing industry in a foreign country implicit in the nominal rate of import duty.[6]

The degree of effective protection is the product of two factors: the differential between the two nominal tariff rates at different stages of processing (10% in the above example) and the reciprocal of the proportion of value added in processing $\left(1 \div \frac{£80}{£480}=6 \text{ above}\right)$.[7] However, it is differential tariffs which are the basic cause of 'escalation' and such tariffs, which rise with each stage of processing a material, are a common feature of the tariff structures of most countries. It should be noted however, that the uniform duty-free entry granted by Britain to most

1. For example, see the UK Full tariff on copper in Table 35.
2. The following example, though not unrealistic, is imaginary. It deals only with the effect of tariffs and assumes away other factors such as standardisation of product, speed of delivery, technological factors, freight differentials, etc.
3. The example assumes that the wire producer in the developed country can obtain copper metal from another source and that the freight on metal equals that on wire.
4. The example would still work with a duty on the copper metal as long as it was lower than that on the wire.
5. By an extension of the calculation, it is possible to estimate the effective rate of protection of value added by *labour* alone.
6. The concept of effective protection would cease to be relevant if the processing industry had an adequate domestic market.
7. The lower the value-added coefficient the higher is the degree of 'escalation' between nominal and effective protection and vice versa.

Commonwealth products and by the EEC to the products of its associates eliminates the problems caused by differentials in these cases.

The escalation of effective tariffs is not limited to the first stage in processing. Following on from the above example, escalation would also occur in the case of the LDC producing copper wire wishing to go one step farther by making copper cables, assuming of course that the import duty on cables was higher than that on wire, as is normally the case.

When, however, a processed material ceases to be identifiable as such and becomes part of a composite product (e.g. when the copper cable becomes part of a generator), the protection given can normally be indicated by the actual tariff rate. For this reason, the rate of increase of effective protection tends to slow down at higher stages of processing and frequently declines as the more complex processes are reached.[1]

Empirical findings

While the average nominal tariffs of the USA, UK, and EEC on manufactures of export interest to the LDCs are 11·6%, 15·5%, and 11·9% (see above), the estimated effective rates are 20·0%, 27·8%, and 18·6% respectively (see Table 31). As can be seen in the table, the differential between nominal and effective tariffs is far smaller for investment goods and the effective rate falls in absolute terms for investment goods.

Table 31 **Nominal and Effective Tariff Rates on Manufactures of Export Interest to LDCs**

Class	USA		UK[1]		EEC[2]	
	Nominal %	Effective %	Nominal %	Effective %	Nominal %	Effective %
Manufactures where imports are natural raw materials	*8·8*	*17·6*	*11·1*	*23·1*	*7·6*	*12·0*
Intermediate goods at high levels of fabrication	*15·2*	*28·6*	*17·2*	*34·3*	*13·3*	*28·3*
Consumer goods	*17·5*	*25·9*	*23·8*	*40·4*	*17·8*	*30·9*
Investment goods	*10·3*	*13·9*	*17·0*	*23·0*	*11·7*	*15·0*
Total (average 34 manufactured goods)	*11·6*	*20·0*	*15·5*	*27·8*	*11·9*	*18·6*

Notes: [1]UK figures refer to non-Commonwealth and non-EFTA goods only, i.e. those on which there is no preference.
[2]CET.

Source: Professor B. Balassa, 'Tariff Protection in Industrial Countries: An Evaluation', *Journal of Political Economy*, December 1965.

Table 32 gives the value of imports of certain manufactures and the raw materials from which they originate, from LDCs into developed countries. The large proportion of unprocessed items in the total imports

1. See Table 31.

of any single category of manufactures is characteristic of the general trend.

Table 32 Imports of Raw and Processed Materials into the USA, UK, and EEC: Copper, Rubber, and Wool 1964

($ thousands)

	USA	UK	EEC
Copper			
Copper and alloys of copper, unwrought	240,562	236,367	472,448
Copper and alloys of copper, worked	5,788	1,539	5,524
Rubber			
Crude rubber	208,571	106,496	217,918
Materials of rubber	—	872	560
Articles of rubber n.e.s.	100	2,121	1,247
Wool			
Wool and animal hair	76,236	78,241	120,517
Yarn of wool and hair	322	613	740
Woven wool fabrics	2,011	993	208

Source: UNCTAD document TD/B/82/Add2.

From the preceding section it can be seen that tariffs are often more restrictive in their effect than the nominal value would indicate; also that the effective tariff acts as a disincentive to elementary processing in producing countries. Since the producing countries most interested in such processing are usually LDCs, further reductions in tariffs will still, despite the lower nominal rates already achieved, be of considerable interest to LDCs attempting to expand their exports of manufactures in this way. This is particularly relevant to the current proposals for preferential tariff reductions by all developed countries on manufactured products imported from LDCs. An outline of a scheme for preferences as proposed in UNCTAD is discussed in Chapter 9.

Any scheme for general tariff preferences might reasonably be criticised on grounds of the difficulty of implementation. Apart from this, however, the view has been expressed that the low level of developed country tariffs, especially on semi-manufactures, would mean that any preference granted would be insignificant. Analysis of effective protection shows that this is not necessarily the case and that preferences could be of considerable benefit to LDCs.

5 Trade Policies towards LDCs: Britain

Britain as a Market for LDCs

Britain is a very important market for LDCs. The value of goods of all types imported from LDCs by Britain is exceeded only by the imports of the EEC and the USA. If the six EEC countries are counted separately, Britain is the second largest market for LDCs.

There are other ways of ranking markets than by value of imports. Table 33 shows that in 1965, among the four largest markets for LDCs,[1] Britain ranked first according to the proportion of income spent on imports from LDCs[2] and third according to the share of total imports supplied by LDCs.

Table 33 Principal Markets for LDC Exports 1965

($ million)

	Gross National Product, 1965	Total Imports[1]		Imports from LDCs[1]		
		Value	% GNP	Value	% GNP	% Total
EEC	299,770	25,590[2]	*8·5*	8,940	*3·0*	*34·9*
USA	692,300	20,850	*3·0*	6,710	*1·0*	*32·2*
UK	99,040	13,980	*14·1*	4,010	*4·0*	*28·7*
Japan	83,560	6,870	*8·2*	2,830	*3·4*	*41·2*

Notes: [1]Import figures are in fact figures for exports destined for the four areas, valued f.o.b.
[2]EEC imports are net imports, i.e. excluding intra-trade, which was valued at $20,840m in 1965.

Sources: UN *Monthly Bulletin of Statistics*, June 1966; OECD *Observer.*

Britain is one of the world's largest import markets for primary commodities,[3] which make up about 60% of Britain's total imports and 80% of Britain's imports from LDCs. Primary commodities from LDCs account for some 40% of total British imports of these products. Primary commodities, apart from fuels, form a very slow-growing sector of British imports. Between 1956 and 1965, imports of primary commodities from LDCs grew by only 1% p.a. The other principal areas supplying primary products to Britain are North America and the 'non-industrial' developed countries.[4]

1. Which together took over 60% of LDC exports.
2. Among all developed countries, the Benelux countries have a higher ratio of LDC imports to income than that of Britain.
3. SITC 0–4.
4. Viz. Australia, New Zealand, and South Africa.

Petroleum and petroleum products form the largest single category of British imports and Britain is one of the largest buyers of oil produced in LDCs. Among other primary commodities of interest to LDCs, Britain is the largest *national* import market for carcase meat, canned meat, canned fruit, butter, tea, tobacco, and raw jute. It is also one of the largest markets for wheat, cocoa, raw cane sugar, vegetable oils and fats, wool, and crude rubber. Of all these commodities, the following are exported only by LDCs: tea, raw jute, cocoa, and crude rubber. Britain is also a major importer of copper (in metal form) and obtains most of its copper from LDC suppliers.

Britain is normally the largest single export market for several individual LDCs. These include, among Commonwealth LDCs, Ceylon (exporter of tea), Pakistan (jute), Zambia (copper), Malawi (tea and tobacco), Nigeria, Sierra Leone, Kenya, and Tanzania. For other Commonwealth LDCs, such as India, Ghana, Uganda, Jamaica, and Trinidad and Tobago, Britain is the second largest market, with the USA usually first. Britain is also the largest market for some non-Commonwealth LDCs, including Bolivia, which exports tin, and Argentina and Uruguay, whose main exports are meat, wool, and, for Argentina alone, cereals. Much of this trade is the result of British investment in these countries.

Manufactured goods (including semi-manufactures)[1] account for about 40% of total British imports and 20% of Britain's imports from LDCs. The share of the LDCs in British imports of manufactures from all sources is about 15%; this is about three times their share in the manufactured imports of the developed countries as a whole.

Cotton textiles, in various forms, are the most important group of manufactures exported by LDCs. Britain is the largest importer, taking some 25% of the cotton textiles exported by LDCs to developed countries. Britain is also the largest importer of machinery and transport equipment from LDCs. Among the few LDCs which export manufactures, Hong Kong and India (which together export half the total) find their largest market in Britain.

The importance to Britain of trade with LDCs

Although many LDCs rely on Britain as an outlet for a large part of their exports, this reliance is not reciprocated to any similar degree. Trade with LDCs forms a steadily decreasing part of Britain's overall trade —both imports and exports. This downward trend can be seen in Table 34, which shows that the share of LDCs in Britain's trade is now about 25% on both accounts. This decline is mainly due to an increase in trade with developed countries in the past decade, rather than to an absolute decline in trade with LDCs (although imports from LDCs have declined since 1964). Commonwealth LDCs account for roughly half of Britain's trade with LDCs.

1. SITC 5–8.

Table 34 The Direction of British Trade 1957 and 1964–6

(£ million; imports c.i.f., exports f.o.b.)

	1957		1964		1965		1966	
	Value	%	Value	%	Value	%	Value	%
Exports to:								
Developed Countries	2,058	*62*	3,104	*70*	3,340	*71*	3,612	*72*
LDCs	1,180	*36*	1,190	*27*	1,249	*26*	1,252	*25*
Centrally Planned Countries	57	*2*	117	*3*	138	*3*	178	*3*
World Total of which:	3,295	*100*	4,412	*100*	4,728	*100*	5,042	*100*
Developed Commonwealth[1]			985	*22*	1,069	*23*	1,043	*21*
Commonwealth LDCs[2]			691	*16*	731	*15*	702	*14*
Imports from:								
Developed Countries	2,491	*62*	3.850	*68*	3,920	*68*	4,111	*69*
LDCs	1,429	*35*	1,628	*29*	1,580	*27*	1,568	*26*
Centrally Planned Countries	123	*3*	218	*4*	250	*4*	275	*5*
World Total of which:	4,043	*100*	5,696	*100*	5,751	*100*	5,954	*100*
Developed Commonwealth[1]			1,279	*22*	1,236	*21*	1,198	*20*
Commonwealth LDCs[2]			800	*14*	801	*14*	786	*13*

Notes: [1]Developed Commonwealth = Canada, Australia, and New Zealand plus Ireland and South Africa. The latter two are no longer members of the Commonwealth but remain in the Commonwealth Preference Area.
[2]Commonwealth less Canada, Australia, and New Zealand.

Sources: Board of Trade and *Commonwealth Trade 1967* (Commonwealth Secretariat).

Most of Britain's principal export markets among LDCs are Commonwealth countries, notably India, Nigeria, Pakistan, and Malaysia. Singapore and Hong Kong also appear in the statistics as large markets but these figures probably include a large proportion of goods re-exported to neighbouring countries. Israel, Venezuela, and Argentina are the largest LDC markets for Britain outside the Commonwealth. India is by far the largest LDC market for Britain yet it ranked only seventeenth in the order of all British markets in 1966 (twelfth in 1964).

The commodity pattern of British exports to LDCs is changing. As the LDCs increase their own production of consumer goods, a larger share of British exports to them is made up of capital goods (e.g. machinery and transport equipment).[1]

1. SITC 7, excluding sub-group 732–1.

On the import side, Britain's sources of supply are sufficiently diversified to ensure that Britain is not dependent on any one country—developed or less developed—for supplies of any essential commodity.[1]

British Trade Policy: Import Duties

The principal instrument for protecting British producers against competition from imports is the Customs and Excise tariff of import duties. The tariff is divided into two lists of duties and each item imported is subject to one of these lists, depending on its country of origin. The first list is known as the Full tariff, while the second contains the preferential rates of duty applicable to goods originating in the Commonwealth Preference Area (CPA), the European Free Trade Association (EFTA), and the Republic of Ireland. In fact, the latter list contains few duties, since the tariff on CPA goods is generally zero, with a few exceptions: that on EFTA goods is zero on all non-agricultural items; while Ireland, though part of the CPA, receives special treatment whereby all Irish goods enter the UK free of customs duty.

The CPA includes all present Commonwealth countries plus the Republic of Ireland, South Africa, South West Africa, Western Samoa, and Burma. Rhodesia is temporarily suspended from membership.

None of the divisions of the tariff covers the LDCs as a whole. The LDCs in the CPA form a very large group, containing half the total population of the developing world outside China. However, they share the advantages of CPA membership on equal terms with developed primary producing countries such as Australia and South Africa. The remaining LDCs are subject to the Full tariff rate and are not treated any differently from such countries as the USA and the six EEC members.

Thus there is no sense at present in which one can talk of a specific British tariff policy for trading with LDCs. What can be said is that those members of the CPA who happen to be LDCs enjoy preferences in certain products against other LDCs and some developed countries. This statement may also be taken to mean that Britain discriminates against non-Commonwealth LDCs.[2]

The evolution of the British tariff

In the years prior to the First World War, Britain was a free trading country and did not impose protective duties. Between 1915 and 1925, three lists of goods were made subject to duty mainly for strategic and revenue raising reasons, rather than strictly protective ones. However, a fundamental change in economic policy came in 1932, when the Import Duties Act imposed new protective duties on most other imports, with

1. In fact, Britain is largely dependent on Pakistan for raw jute and Malaysia for natural rubber but both these commodities can be replaced to a large extent by natural or synthetic substitutes.
2. *Cf.* the discriminatory preferences granted by the EEC to Associated LDCs (see Chapter 6). The Latin American countries form the main LDC bloc which does not benefit from either system.

the notable exceptions of several important raw materials. This Act was the origin of the Full tariff.

The preferential CPA tariff evolved out of and simultaneously with the Full tariff. It resulted from the exemption of Commonwealth goods from some of the pre-1932 duties and from all the new 1932 duties. The process was finalised after the Imperial Economic Conference at Ottawa, later in 1932, when the Full tariff was raised still further on certain goods of special interest to Commonwealth primary producers. It is important to remember that the creation of 'Commonwealth Preference' was not a process of tariff elimination; it was the residual of a policy of tariff erection.

The next major step in tariff policy was Britain's adherence to the GATT in 1947. The GATT sanctioned Britain's two-part tariff. However, Britain undertook not to create new preferences nor to increase the degree of Commonwealth Preference, i.e. not to widen the gap between the CPA and Full rates of duty. In fact, subsequent tariff negotiations under GATT auspices (such as the recent 'Kennedy Round') have lowered the Full tariff and thus reduced the margin of Commonwealth Preference.

The third part of the British tariff was added in 1960 with the formation of EFTA, in which Britain is the dominant trading partner. The main provision of the EFTA Treaty was for member countries to remove gradually all import duties on trade with one another in industrial goods.[1] This, unlike Commonwealth Preference, represented a positive move towards freer trade and received the sanction of the GATT.[2] The process of duty elimination was phased and was completed on 31 December 1966. Since then there has been a completely free market in industrial goods between EFTA members. Duty elimination on trade with Finland, which is associated to EFTA, will be completed on 31 December 1967.

Finally the 1965 UK-Ireland Free Trade Agreement provided for the removal of all remaining customs duties on Irish imports into Britain. It also provided for the progressive elimination of most Irish duties on British goods. Ireland thus enjoys the most preferential tariff treatment accorded by Britain to any country.

The British tariff has arrived thus at the present stage in its evolution. The possibility of future modification is discussed later in this chapter, with reference to possible British entry into the EEC.

A recent addition to tariff policy was the temporary import surcharge of 15%, which was imposed in October 1964 on imports of most manufactured goods from all sources. It was finally removed in November 1966. The surcharge was an emergency measure of last resort to protect the balance of payments.

Import duty levels

In general, the level of the Full tariff rises with the degree of processing

1. Industrial goods means non-agricultural goods, whether primary or manufactured.
2. The GATT rules forbid, in principle, the creation of new preferences unless these result in a customs union or free trade area involving 100% duty elimination on most goods, traded (see Chapter 7). EFTA is tolerated by the GATT but the latter has reserved its final judgement.

of the imported product. Several important foodstuffs and raw materials enter duty-free from all sources.[1] This 'free list' includes wheat, mutton and lamb, crude rubber, raw fibres (e.g. cotton and jute), metallic ores, and unwrought metals. The Full tariff on tea and tropical hardwoods is currently suspended simultaneously with that of the EEC. Those primary commodities which are dutiable in the Full tariff pay a low rate of duty between 5% and 10% *ad valorem*. The Full rate on dutiable semi-manufactures is in the range of 10% to 15%, while that on manufactures rises up to 33⅓% (and beyond in a few cases). Most of the goods at the higher end of this range are those to which the pre-1932 duties were applied.[2]

In all, these customs duties raise a revenue of as little as 3% of the value of all British imports and virtually all of this comes from the Full tariff. However, a large amount of revenue is raised from revenue duties on petroleum and petroleum products, tobacco, wines and spirits. These duties are not intended to protect domestic industry and, in fact, are applied to domestic production at the same or slightly lower rates. The revenue duty on petroleum is applied equally to imports from all sources, but there is a small margin of Commonwealth Preference in the duties on wines, spirits, and tobacco.

Table 35 Specimen UK Import Duties[1]

Tariff Heading		Rate of Duty			
		Full	CPA	EFTA	(Category of Duty)
09·02	*Tea*	Free	Free	Free	(Foodstuffs; Free list by arrangement with EEC)
18·01 (A)	Raw *cocoa* beans[2] (per cwt.)	*2/4d.*	Free	*2/4d.*	(Foodstuffs)
74·01 (B)	Unwrought *copper*	Free	Free	Free	(Semi-manufactured; Free list)
74·03	Wrought bars, rods, etc. of *copper*	*10%*	Free	Free	(Semi-manufactured)
74.09	Tanks, vats, etc. of *copper*	*20%*	Free	Free	(Manufactured)
55·09	Woven fabrics of *cotton*				
	(A) containing silk and man-made fibres[2]	*17½%* +9*d.* per lb. man-made fibres	5/6 of the Full rate	Free	(Manufactured; Dutiable pre-1932)
	(B) Not containing man-made fibres	*17½%*	Free	Free	(Manufactured)
24.01 (A)	Unmanufactured *tobacco* (per lb.)[2]	£4.7.4½*d.*	£4.5.10*d.*	£4.7.4½*d.*	(Revenue Duty)

Notes: [1]Prevailing before the Kennedy Round reductions.
[2]The duties on cocoa beans and unmanufactured tobacco are specific duties, charged as a fixed sum per unit of volume. The duty on fabrics containing man-made fibres combines specific and *ad valorem* duties. Revenue duties are always specific in the UK tariff

Source: HM Customs and Excise Tariff.

1. However, British agriculture is supported by subsidies, not tariffs. See Appendix C to this Chapter.
2. For a general comparison of the UK Full Tariff with those of the EEC and the USA see Table 40, on p. 109.

Commonwealth Preference

The Commonwealth tariff

The CPA tariff contains certain exceptions to the rule of duty-free entry which are worth examining since they affect items of interest to LDCs.

First, duty is chargeable on imports from the CPA of certain categories of goods which include fully refined sugar, soluble coffee, and soluble tea.[1] These duties discriminate against the vertical expansion of processing industries in sugar, coffee, and tea producing countries in the CPA. The full rate of duty on these categories is higher than the CPA rate but the EFTA rate on soluble coffee and tea is zero. These duties are the only protective duties on CPA products in the whole range of foodstuffs and raw materials.[2]

Secondly, a group of CPA manufactured goods is subject to duty. This group consists of those goods which were dutiable from Commonwealth sources before 1932. The main items in this group are clocks and watches, musical instruments, motor vehicles, and, most important, goods of any type containing man-made fibres. The motor vehicle duty covers accessories, components, and spares, even where these belong to categories of goods which would normally enter duty-free. For example, car radios from the CPA are dutiable; other radios are not. The CPA rate of duty on these manufactured goods is five-sixths of the Full rate on man-made fibres and two-thirds on the other products.[3] EFTA producers have the advantage of duty-free entry and so receive preference against the CPA.[4]

The man-made fibre duty is important in that it affects the exports of the cotton textile industries of LDCs in the CPA, for whom the introduction of man-made fibre textiles and mixtures is an evolutionary step. Export capacity already exists, notably in Hong Kong and India, but most man-made fibre textiles exported from Commonwealth LDCs go to other LDCs in Asia and Africa. However, it is probable that supplies to Britain will increase in the future and that the man-made fibre tariff will thus become increasingly restrictive for Commonwealth LDCs.

The value of Commonwealth Preference[5]

The *ad valorem* margin of preference enjoyed by CPA goods imported into Britain is expressed as the absolute difference between the CPA rate of duty and the Full rate. Margins range from nil on fuels, to 2%–3% on raw materials, 5%–10% on food, drink, and tobacco, and 20% or more on those manufactures which enter free from the CPA. In 1962,

1. More precisely defined as high polarising sugar, roasted or ground coffee, and extracts, essences or concentrates of coffee or tea.
2. Up to April 1962, the UK imposed revenue duties on coffee, sugar, cocoa, and tea in raw and processed form. CPA products paid a preferential rate of duty. From that date, most of these duties were eliminated on CPA products and reduced on non-CPA products. The duties listed above could not be eliminated for technical reasons and remained as protective duties on CPA products.
3. See Table 35, item 55.09 (A), for an example.
4. Except for Ireland, which also enjoys duty-free entry on these products.
5. The calculations of preferential margins in this section are taken from two articles by R. W. Green in the Board of Trade Journal, issues of 11.6.65 and 31.12.65. This is the most recent analysis available. The margins do not take account of EFTA rates of duty and hence tend to overstate the actual benefits conferred by the British CPA tariff.

the average margin[1] on total imports from the CPA was 7%. The average margin on those CPA goods which enjoyed preference (60% of the total) was 12%. Reductions in the Full tariff had reduced these margins by nearly half from 1937 levels. However, the margins were higher in 1962 than in 1957 because of a rise in the share of 'high preference' manufactures in total imports from the CPA.

Commonwealth Preference is not a one-way operation. Britain enjoys reciprocal preferences in most CPA countries. The CPA countries which do *not* grant tariff preferences on British goods are: Ghana, Nigeria, Kenya, Uganda, Tanzania, Burma, Sierra Leone, and Zambia. The first five of this list have always had non-preferential tariffs; the last two abolished preferences in 1965 and 1966 respectively. In addition, Malaysia eliminated most preferences on British goods in 1966.

In 1961 the average margin of preference on all British goods imported into CPA countries granting preferences was about 7%. On goods enjoying preference (55% of the total), the average margin was 12%. These margins had been declining since 1937, though the pace of decline in post-war years was slower.

There is a striking similarity between the average margins of preference on British exports to the CPA and on CPA exports to Britain. This does not necessarily mean that Britain 'breaks even' on Commonwealth Preference. Although it is impossible to quantify the value of preferences satisfactorily, a calculation by Professor H. G. Johnson is worth quoting.[2]

Johnson calculates that in 1961/2 certain CPA countries, notably India, Hong Kong, Ireland, and the Southern African countries, 'gained' more on their exports to Britain than they 'lost' on their imports from Britain, and that other CPA countries, notably New Zealand, Australia, Malaysia, Trinidad, and Malta, made a net 'loss'. The total of net country 'gains' from Britain was £35–38m p.a. and the total of net 'losses' to Britain was £28–30m p.a. Thus, Britain acted as a redistributor of income within the CPA and itself 'lost' £5–10m p.a. plus a further £10m 'loss' to those CPA countries which did not grant preferences. The net income 'gain' from Britain by LDCs in the CPA was £30–38m p.a.

This figure is a very rough valuation of resources transferred from Britain to LDCs through preferences. It is small in relation to the total value of British imports from LDCs: roughly £1,500m. It is quite large in relation to the present level of British aid: about £150m (net of amortisation and interest payments).

This valuation of transferred resources is one measure of the benefits of Commonwealth Preference to Commonwealth LDCs. It is, however, a

1. Expressed as an average of margins in each category weighted by the value of imports under each category.
2. This calculation appears in *The Round Table—The Commonwealth Quarterly* (October 1966). It is based on the assumption (admitted to be 'primitive' by Johnson) that the volume of trade is determined independently of tariffs and preferences. On this assumption, the average preferential margin granted by any country multiplied by its preferential imports would result in a figure representing the implicit transfer of income from the country concerned to the countries of origin of its preferential imports. Johnson applies this method of calculation to the data in R. W. Green's articles to produce the results summarised in the text. However, the weakness of the underlying assumption is obvious — tariffs *do* discourage imports and preferences *do* encourage them—so the figures quoted must be taken as very rough indications.

benefit gained at the expense of Britain and at the expense of LDCs outside the CPA.

It is possible to use an alternative measure of benefits, which does not imply liabilities for non-preferred countries. This is achieved by measuring the freedom of trade allowed by the British CPA tariff, and analyses the degree to which the very low and zero CPA duties encouraged greater economic efficiency within the CPA and Britain, by allowing CPA producers to compete directly with British producers. The relatively high level of British imports of LDC manufactures, mainly from the CPA, would appear to support the assertion that the freedom of the CPA tariff has been beneficial by this criterion.

British Trade Policy—Import Quotas

Britain makes use of quotas sparingly and for various specific reasons. For example, quotas are used to regulate bilateral trade with Eastern European countries, to counteract dumping (e.g. quotas on butter imports), or to ensure a market for 'traditional' suppliers (e.g. restrictions on rum, cigars, bananas, and grapefruit from the Dollar Area, which benefit the Caribbean Commonwealth countries). The most obvious case of discrimination against a single country is that of quotas against certain Japanese textiles and textile products. However, the type of quota which is of most concern to LDCs is that which is designed to protect British producers from 'low-cost' (though not dumped) imports, usually of manufactured goods. Into this category fall the present restrictions on imports of cotton and jute textiles, the objects of which are to prevent undue displacement of labour in the highly localised and obsolescent industries of Lancashire and Dundee. Imports of sugar are also regulated.[1]

The case of sugar is rather unusual and rather complex. Domestic production—from beet—is subsidised but is also controlled and produces about one-third of current market demand. The bulk of the balance is imported, as raw cane sugar, under the Commonwealth Sugar Agreement. This agreement provides for guaranteed prices on specified quantities of imported raw sugar. In a sense, both domestic and Commonwealth producers are subject to the same type of policy. The difference is that the former receive a guaranteed price on their entire controlled output, whereas the latter, including several small economies dependent on sugar,[2] have to export a large part of their crop to other countries at unguaranteed prices.

The main competition to the Dundee jute textile industry comes from duty-free imports from India and Pakistan. The Board of Trade Jute Control exercises a monopoly of imports from these countries of those grades of jute cloth which are of major interest to British producers.

1. The schemes for regulating imports of sugar and cotton and jute textiles are described in some detail in Appendix B to this Chapter.
2. Notably Barbados, Fiji, and Mauritius.

Although it claims not to restrict the volume of imports, the Jute Control imposes a percentage price 'mark-up' when it sells the controlled products. This arrangement could be considered a discriminatory tariff against India and Pakistan. In addition, certain jute goods from other countries are subject to ordinary quotas and within these limits are imported by private traders subject to normal tariff treatment.

The case of the Lancashire cotton textile industry is the best known of these three. Since 1966, quotas have been imposed on all imports from 'low-cost' sources. Imports from 'high-cost' countries enter freely. These protective measures are designed to give the industry a breathing space during its period of 'rationalisation' and the current quota arrangements are due to expire in 1970.

Only a small range of British imports is regulated by quotas but the goods covered are all of particular interest to LDCs. It is especially relevant that Britain has not been able to accept fully the logical consequences of duty-free entry for textiles from Commonwealth LDCs. The textile industry, as is well known, is a typical originator of industrialisation in LDCs. As industrialisation spreads in Commonwealth LDCs, so will competition to British producers from 'low-cost' duty-free imports. It remains to be seen whether the precedent set in protecting the British cotton and jute textile industries will be applied in other sectors, if such competition arises.

International Trade Relations[1]

As a contracting party to the GATT Britain has played a full part in its work, including the 'Kennedy Round' of trade negotiations. Although generally sympathetic to recent GATT initiatives in favour of LDCs, Britain has not participated actively in the GATT Long Term Arrangement on trade in cotton textiles. By invoking an escape clause in the Arrangement, Britain avoided any obligation to increase access for cotton textiles from LDCs. It was able to take this action on the grounds that it was already importing a 'substantial volume' of cotton textiles in relation to its own production.[2]

Britain is a member of UNCTAD and the British delegation, under the leadership of Edward Heath, played a leading role in the first Conference in 1964. The sympathetic attitude of the British delegation did much to counteract the 'hard' line of the USA and made a substantial contribution to such success as was achieved at the Conference. In particular, Britain declared itself in favour of generalised preferences for LDCs (provided Commonwealth interests were not harmed) and, jointly with Sweden,

1. For a description of the work of the GATT see Chapters 7 and 8, for that of UNCTAD Chapters 9 and 10, and for the commodity agreements mentioned Chapter 3. Britain's membership of EFTA has already been dealt with in this chapter.
2. It is a fact, of course, that no other major cotton textile producing country imports such a high volume of 'low-cost' products in relation to domestic production and consumption of cotton textiles.

sponsored the proposal for 'supplementary finance' for unforeseen export shortfalls. Britain continues to participate in the manifold activities of UNCTAD.

Britain is a party to all current international commodity agreements,[1] i.e. those for wheat, coffee, and tin as well as the 1958 sugar agreement, which is currently suspended. It is taking part in negotiations for new cocoa and sugar agreements.

Future Developments in British Trade Policy

The Kennedy Round

The UK was one of the principal participants in the Kennedy Round of trade negotiations. The overall results of these negotiations are summarised in Chapter 8. As a result of tariff cuts agreed by Britain at Geneva, the average Full tariff on non-agricultural products will fall from 18% at present to about 11% in 1972.[2] Britain has in fact agreed to reduce most of its Full rate duties and the heaviest cuts will be made in the chemical and mechanical engineering sectors and in the very high pre-1932 duties. In the textiles sector, no cuts are to be made on products wholly made of cotton, wool, linen, or jute and only small cuts on mixtures of these fibres with man-made fibres. However, substantial cuts will be made on products made wholly from man-made fibres.

As far as possible, Britain tried to reach the target of a 50% cut on industrial products and raw materials of interest to LDCs. Although cuts on textiles were on the whole much less than this, the target was achieved on such items as plywood, furniture, travel goods, imitation jewellery, leather, and lumber and was surpassed on several others (e.g. lead and some hides and skins). On tropical commodities, Britain agreed to eliminate duties on cocoa and cocoa products, to halve those on raw coffee, and to reduce or eliminate duties on some tropical fruits and spices.

For the most part, these cuts in the Full tariff will reduce the margins of Commonwealth Preference on the products affected. However, margins were maintained on two-thirds of Britain's preferential imports from Commonwealth LDCs.[3]

Entry into the EEC

British entry into the EEC would of course involve a radical departure from the present trade policy framework and the acceptance of a new régime. The present state of EEC external trade policy, including its special relationships with associated LDCs, is described in Chapter 6.

The terms of British entry into the EEC are a matter for negotiation. However, any terms must include the adoption by Britain of the Common

1. Except the olive oil producers' agreement.
2. This average will still be higher than that of the EEC, whose average CET will be reduced to about 6% (see Table 40).
3. In the case of dutiable CPA goods, margins were maintained by reducing the CPA tariff in step with the Full tariff.

External Tariff and the Common Agricultural Policy of the EEC. This would entail the dilution and possibly the elimination of Commonwealth Preference.[1] Unless other measure were also taken, these changes would affect the trade of some Commonwealth countries adversely. It is a fair assumption, therefore, that Britain would seek whatever measures were necessary to cause the least possible harm to Commonwealth interests.

It is possible to make some broad predictions about the likely effect of a negotiated British entry on the trading prospects of Commonwealth LDCs. The following are based largely on the understandings reached at the time of the abortive 1962/3 negotiations and on Commonwealth attitudes expressed since then.

Association for the Afro-Caribbean Commonwealth

On non-agricultural primary products, the Common External Tariff (CET) of the EEC is lower than the UK Full tariff and consists largely of zero duties. The CET would not, therefore, present a serious obstacle to Commonwealth exporters of minerals to Britain in the EEC. The CET also provides for zero duties on several agricultural raw materials, e.g. rough wood, rubber, raw fibres, and oilseeds, and also on tea. However, on certain tropical commodities, including coffee, cocoa products, bananas, vegetable oils, and spices, the CET has been set at a fairly high level to protect the exports of these products to the EEC from the Associated States, which are exempt from the CET.[2] Thus, if Britain were to accept the CET on these commodities, Commonwealth producers, mainly in Africa and the Caribbean, would stand to lose trade to the Associated States.

Existing precedents suggest two remedies for this situation. The first is for Britain to obtain a waiver from the CET allowing it to retain the CPA zero tariff on these tropical commodities.[3] The second is for the Commonwealth LDCs concerned to negotiate association agreements with the EEC, as Nigeria has done and as the three East African countries are attempting to do. If British entry into the EEC brought with it an offer of association on favourable terms to the Afro-Caribbean Commonwealth, the export prospects of the latter would probably be better than they have ever been in the past, with one important exception.

Commonwealth sugar and the CAP

The exception to the solution of association is sugar. Sugar is subject to the Common Agricultural Policy (CAP) which provides, *inter alia*, for surplus production of sugar within the present EEC.[4] The CAP overrides duty-free access under the CET and provides for the regulation

1. As well as the demise of EFTA, some of whose members might join the EEC simultaneously.
2. EEC policy on tropical commodities is described in Chapter 6, section on the Yaoundé Convention, p. 116. See in particular Table 42.
3. The precedent for this is the 'Morocco Protocol', see p. 114.
4. France's sugar producing overseas departments are treated as part of France for the purpose of the CAP.

of imports by variable import levies. These levies apply in principle to associated countries as well as non-associates.[1]

As matters stand, there is only limited scope for imports of sugar into the EEC, even from associates. Unqualified acceptance by Britain of the CAP for sugar would involve the termination of the Commonwealth Sugar Agreement after the expiry of its eight-year term. This, in turn, would entail the loss by Commonwealth sugar exporters not only of their preferential negotiated price but also of their guaranteed outlet. It is not certain that they would be able to secure a regular outlet in the enlarged EEC. This would be a very serious loss and, for the sugar-dependent economies (such as Barbados, Mauritius, and Fiji), the loss would be irreplaceable.

However, this loss might be avoidable. There are precedents in the EEC for the relief from the variable import levy of specified quantities of imports from EEC associates. These precedents could conceivably be invoked to obtain agreement from the EEC for the continuation in some form of the conditions of access provided by the Commonwealth Sugar Agreement. Moreover, whereas the Six are now a surplus area for sugar, an enlarged EEC would be a deficit area and thus a net importer.

A similar conflict between the Association solution and the CPA may arise in future in respect of trade in oils and fats, which is especially important to several West African countries.

Commonwealth LDC manufactures

The Asian Commonwealth LDCs would not be eligible for association with the EEC. Association under part IV is only open to African countries or countries with similar economies and association under Article 238 involves a degree of reciprocity which might be too much for an Asian LDC to bear. On the other hand, their main primary commodity exports would not face any duties in the CET. The problem for this group of countries, and especially for India and Hong Kong, would be the loss of duty-free entry into Britain for most of their manufactured goods, especially for cotton textiles. This problem should not be exaggerated, as only in the case of Hong Kong would a major portion of total exports be affected and the additional barriers to exports would not be absolute (as in the case of sugar).

However, in this case as with sugar, the loss of duty-free access to the British market for Commonwealth manufactures might be avoidable. It might be possible for Britain to negotiate duty-free (or reduced-duty) quotas for imports of cotton textiles and other manufactures from the Commonwealth LDCs, based on existing imports into Britain.[2] Alternatively, the process of aligning the CPA tariff to the CET could be extended over an extra long period for the products concerned. Independently of this, Britain could press from within the EEC for a reduction of the CET on manufactures of interest to LDCs and for a more rapid liberalisa-

1. See Chapter 6 for an outline of the CAP.
2. The 'Morocco Protocol' might again be the precedent.

tion of EEC cotton textile quotas under the GATT Long Term Arrangement.

The only remaining Commonwealth LDCs would be the Mediterranean ones, which would be eligible for association under Article 238 of the Treaty of Rome or which could be dealt with by special trade agreements.

Appendix B

The Regulation of British Imports: Raw Sugar, Jute Textiles, and Cotton Textiles

While the regulations on imports of sugar and jute and cotton textiles only affect a small part of British imports, they do represent identifiable points of conflict with the trading interests of LDCs and are, therefore, worth examining more closely. This Appendix describes the operation and motivation of the three main quota schemes.

Raw Sugar

Raw sugar[1] is the one primary commodity of interest to LDCs which is subject to overall quantitative regulation on entry into Britain. Within this policy, Commonwealth cane sugar producers enjoy special price guarantees. In addition to import regulations, there are controls on domestic beet sugar acreage. Domestic beet sugar also receives a guaranteed price.

Total demand for sugar in Britain at present runs at about 3m tons p.a. (raw equivalent). Of this total, a pre-determined quantity is supplied at fixed prices in the form of raw cane sugar by members of the Commonwealth Sugar Agreement (CSA). This CSA sugar is then refined in Britain. Currently, quotas granted under the CSA total 1·7m tons p.a. (see Table 36).

The CSA price is negotiated every three years. The current price for 1966–8 is £43. 14*s*. 0*d*., plus for the less developed countries (i.e. all except Australia) a special payment calculated annually. The special

1. 'Raw sugar' is, in fact, semi-refined.

Table 36 **Commonwealth Sugar Agreement: Negotiated Price Quotas 1966**

	long tons
Australia	335,000
British Honduras	20,500
East Africa	7,000
Fiji	140,000
India	25,000
Mauritius	380,000
Swaziland	85,000
West Indies and Guyana	725,000
Total	1,717,500

(Rhodesia's quota of 25,000 long tons is suspended.)

payment consists of a fixed element of £1. 10*s*. 0*d*. and a variable element ranging from £2. 10*s*. 0*d*. to nil inversely with the world price. At the present level of the world price, the variable element is at its maximum of £2. 10*s*. 0*d*. Thus, the CSA price for LDC members is £47. 14*s*. 0*d*. at present. This is much higher than the 'free' price obtaining in the residual world market for sugar. In 1967 the world price varied within the range of £12 to £20 per ton.[1] As far as can be foreseen, world prices will continue to be well below the CSA price and CSA producers will continue to enjoy a considerable bonus on that part of their production which is exported under CSA quotas.

The CSA was signed in 1951 for an eight-year period but has been extended for one year at each annual review since then. The CSA thus has a revolving eight-year duration.

The counterpart of the CSA is the protection of British beet sugar production. A fixed producer price for beet is determined at the Annual Farm Price Review and it is applied to the output of a controlled beet acreage. This formula has allowed beet growers to benefit from rising yields per acre. The fixed price is paid by the refining company, the British Sugar Corporation Limited (BSC), which is partly Government owned. The share of beet sugar in the British market is about 0·9m tons p.a.

The total quantity of controlled cane and beet sugar production is always fixed below anticipated total demand. The residual quantity is imported (raw or refined) under licence at open market prices, subject to preferential tariff treatment for CPA sugar.

1. This residual price tends to be lower over long periods than that which would result from a truly free market in sugar. However, it is also very volatile and has been well above the CSA price for short periods in the post-war years, e.g. during the Korean war and during the Cuban crisis of 1962.

The management of British sugar policy is carried out by the Sugar Board, a statutory body whose function it is to stabilise the price of refined sugar sold in Britain. Its complex operations can be summarised as follows:

(a) it buys all CSA raw sugar at negotiated prices and resells it to private traders at world prices;

(b) it makes incentive payments to the British Sugar Corporation Ltd. and covers the BSC's losses incurred in buying beet at the fixed price;

(c) it recovers its own deficit on these transactions by means of a surcharge imposed on all sugar consumed in Britain; surpluses accruing at times of high world prices are returned to the consumer through 'distribution payments' on sugar consumption.

Since the Board is self-financing over a period of years, the cost of protecting British beet production and of subsidising a part of Commonwealth cane production is borne by the consumer (not by the Exchequer). In return, the consumer benefits from a stable sugar price.

Beet is generally more expensive than cane as a source of sugar. The beet crop was introduced into Britain to secure strategic supplies of sugar but this is no longer the reason for its retention. Nowadays sugar beet is no less important as an efficient rotating crop in cereal production and as a source of livestock fodder than as a source of sugar. It has become an integral part of mixed farming technology. The fact that beet has a marketable end-product (i.e. sugar) makes it more attractive than alternative root crops. So British sugar policy, besides protecting domestic beet refining capacity,[1] is contributing to a more efficient agricultural sector. Any criticism of this policy must take account of this latter point.

Jute Textiles

The British jute textile industry is concentrated in and around Dundee, where it has traditionally been the largest employer of local labour. Between the wars, it was affected by severe competition from the 'low-cost' Indian (Bengali) jute industry. Since the war, Pakistan has also established a jute industry (with some British aid), although its main interest still lies in the export of raw jute (to the Bengal and Dundee industries among others). Both Indian and Pakistani jute textiles enjoy duty-free entry under the CPA tariff. In addition, the Dundee industry faces competition within Britain from man-made fibres (used for carpet backing) and from paper and plastics (used for sacks). Despite the decline of the industry and the diversification of local employment, the jute textile industry still employs some 14% of Dundee's labour force.

In order to protect the industry against continued competition from 'low-cost' imports, the wartime state trading apparatus was retained for jute products imported from India and Pakistan. This meant that the Board of Trade Jute Control retained a monopoly of such imports and

1. The British beet refining industry is one of the most efficient in the world but without support could still not compete with cane sugar on equal terms.

imposed a compulsory price 'mark-up' on their resale on the British market.

The Jute Control still exists but is being slowly but progressively dismantled, despite protests from Dundee. Jute yarn is imported by the Jute Control and resold at cost. Common hessian cloths, mainly used for sacking, have been imported on private account since 1964. These cloths, which account for most Indian and Pakistani output, had dwindled to something like 10% of Dundee's output before protection was removed. The remaining 90% of Dundee's output consists of more sophisticated grades of cloth,[1] mostly used in carpet manufacture. These grades are still subject to the Jute Control and to a mark-up. (Made-up sacks and bags are treated similarly to the appropriate categories of cloth.) The value of the Jute Control's purchases has fallen to less than 10% of the total value of jute goods imported from India and Pakistan.

The mark-up is currently 40%[2] on grades which used to be imported from India and Pakistan before 1963 and 45% on other more advanced grades, which are of the greatest long-term interest to Dundee. The variable element of 5% in the 40% mark-up is to be reviewed in 1967. The more advanced grades will continue to be subject to the 45% mark-up until all other grades have been freed.

These arrangements could be regarded as a discriminatory tariff against Indian and Pakistani jute textiles, in that they raise their price but do not restrict the volume of imports directly.[3] Their effect is to protect the evolution of the British jute industry for a considerable time ahead and similarly, though to a lesser extent, to retard the advancement of the Indian and Pakistani industries.

Jute textiles from sources other than India and Pakistan are imported by private traders subject to normal import duties and to import licensing. Duties on cloth and bags are 20% at the Full rate and zero for CPA and EFTA goods. However, while this tariff treatment is much less harsh than that of the mark-up on Indian and Pakistani goods, import licenses are restricted to an annual quota for grades of cloth and bags of the type subject to the Jute Control. The quota at present is 2,500 tons.

Imports of all types of jute goods, including yarn, from all sources under these arrangements amounted to some 50,000 tons valued at £8·8m. Of this total, some 44,000 tons (£7·5m) was imported from India and Pakistan and 3,000 tons (£0·7ms) from countries to which quotas apply for certain of their jute goods.

Cotton Textiles[4]

The problems of the British cotton textile industry are not dissimilar to those of the jute industry. The industry is highly localised, being mainly

1. Distinguished by their width, in excess of 45″.
2. Made up of a fixed mark-up of 35% and a variable element now set at 5%.
3. Although the monopoly power of the Jute Control could theoretically be used to limit the volume of imports, the Board of Trade claims not to exercise this power.
4. It is important to remember that man-made fibres are excluded from this heading, although they are substitutes for cotton and are broadly part of the same industry. Man-made fibre production is protected by tariffs.

situated in Lancashire. It was the mainspring of the early Industrial Revolution in England and, for a long time after, dominated world markets. Exports took 80% of its output at its peak. For the past 50 years the British cotton textile industry has been on the decline, as other countries successfully entered the field, and in 1959 Britain became a net importer of cotton textiles. Currently, imports account for 30% to 40% of domestic consumption of cotton goods. This import ratio is far higher than that of other major cotton textile producing countries.[1] The main suppliers of imports are India and Hong Kong whose products enter Britain duty-free. The textile industries as a whole are still major employers of labour in the North West of England (though not as large as the engineering industries) but the post-war contraction of the cotton textile industry has not caused registered unemployment in the region to rise significantly above the national average.

Since 1959, the cotton textile industry has been going through a period of 'rationalisation'. The 1959 Cotton Industry Act made about £30m of Government money available to help with the costs of scrapping obsolete plant and of re-equipping a smaller but sounder industry with modern machinery. This radical reconstruction was held to justify 'infant industry' treatment—hence the decision in 1959 to introduce temporary protection against 'low-cost' imports.

Between 1959 and 1964, 'voluntary' restrictions on cotton textile exports to Britain were negotiated between the Lancashire industry and major 'low-cost' suppliers, beginning with India, Hong Kong, and Pakistan. This 'voluntary' system of control was not entirely satisfactory from the point of view of Lancashire. Pakistan refused to accept an extension of 'voluntary' restrictions in 1962 and a compulsory quota had to be imposed against Pakistani imports by the Board of Trade. In 1965, it was decided that imports during 1966–70 from all 'low-cost' countries other than India and Hong Kong should be subject to compulsory import quotas.

Imports from Eastern Europe, China, and Japan continue to be regulated by bilateral quotas. Imports from North America, EEC and EFTA, Australia, and New Zealand are licensed freely, though Portugal has accepted 'voluntary' restrictions on exports to Britain. Thus the present system is openly discriminatory against 'low-cost' countries.

The import quotas are divided into four broad groups—yarn, grey cloth, finished cloth, and made-up goods—each sub-divided into categories. This division limits the amount of any one type of cloth which may be imported, thus putting a brake on 'disruptive' inflows of any one group. Surpluses in categories may be offset against deficits in categories only within the same group.

The level of the 'voluntary' Hong Kong and India quotas remains unchanged at a joint total of 17·8m lb. of yarn and 380m square yards of cloth and made-ups. Compulsory quotas for the other 'low-

1. The ratio for the EEC is below 10%.

cost' sources total 8·5m lb. of yarn and 138m square yards of cloth and made-ups. Just over half of this latter total is allocated as bilateral country quotas and the balance goes into a 'global quota' for which the whole group of countries may compete.[1] All quotas increase by 1% p.a. These figures should be compared with those in Table 37.

Table 37 UK Cotton Textile Production and Imports 1966

	Cotton Yarn (m. lb.)	Grey	Cotton Cloth[1] (m. sq. yds.) Finished	Total
Home Production	456		915	
Total Imports	34		587	
of which: Hong Kong		114	34	148
India		140	12	153
Global Quota Countries		72	7	79
Total 'low-cost'[2]		326	53	380

Notes: [1]Includes grey and finished cloth but not made-up goods. 'Low-cost' imports of made-up goods in 1966 were as follows (in m. sq. yds.): Hong Kong 85m, India 13m, global quota 9m; total: 107m.
[2]Excluding Portugal and Japan.

The current quota system is not as strict as that requested by the industry, which would have liked lower quotas, more bilateral allocation, and stricter categorisation (not to mention a tariff on Commonwealth textiles). However, it appears to have worked effectively in its first year. The crisis in the industry in early 1967 was not due to any excess of imports controlled by the quotas. It was the product of the general economic recession, aggravated by a sudden, concentrated rise in imports from Portugal. In a Commons debate at the time, the Government's intention to remove the quotas after 1970 was reiterated. The question of future policy is still controversial and is under review.

Although Britain is the largest market for cotton textile exports from India and Pakistan, both these countries have a very large domestic market and exports to Britain account for 5% or less of their total output. However, the importance of the export sector of the cotton industry in these countries lies in its role as a potential stimulant of technological progress in the rest of the industry.

Hong Kong is something of a special case. The export of cotton textiles and clothing is a key factor in its economy and Britain is its second largest market.

1. The total quota for these countries was based on an average of their exports to the UK in 1962/3/4 plus a 10% addition for cloth and made-ups. Half of this was allocated to the 'global quota'. Separate 'special country quotas' totalling 7m square yards were allocated bilaterally.

Appendix C

British Agricultural Protection

The description of British tariffs given in the section on 'Import Duty Levels' does not provide a complete picture of British protective policy. Despite the absence of serious tariff obstacles to imports of foodstuffs, British agriculture is, in fact, heavily supported. The basic instrument of support is a policy of annual government subsidies of agricultural production costs and prices. The protection of sugar beet production forms part of this policy and has already been described in Appendix B. The other protected products are of limited interest to LDCs as a whole but they do affect the Latin American exporters of temperate farm products. To this extent, they are relevant to a review of British trade policy towards LDCs and a very brief outline of British agricultural protection is therefore appended.

The annual farm subsidies are dispensed as follows. First, British farmers receive straight cash grants to defray their production costs and improve efficiency. The main cost items eligible for such grants are fertilisers, calf retention,[1] and farm improvements. Secondly, certain important farm products enjoy price guarantees and the differential between the average actual market price and the guaranteed price is paid to the farmer as a subsidy. Price guarantees cover cereals, fatstock, milk, eggs, wool, potatoes, and sugar. In addition to these subsidies, certain horticultural products are protected by seasonal import duties and the bacon and butter markets are subject to international market-sharing arrangements.

Mainly as a result of this farm support policy, Britain produces about half of its total food requirements (including two-thirds of its temperate food requirements). However, the cost of this degree of self-sufficiency is high. The total budgetary cost of farm support in 1965/6 was about £240m. This was the lowest bill in the 1960s but still accounted for over 50% of net farming income, which was estimated at £470m for the same year.

The 'traditional' British policy of free trade in foodstuffs plus domestic subsidies amounts to an open-ended commitment to finance the differential between British and foreign costs to the extent of whatever the British farmer is physically capable of producing. Under this system imports are only allowed to fill the gap between domestic supply and demand; they are not allowed to displace domestic supply. This policy made sense for Britain in the period of post-war shortages but, as the world food market moved into a surplus (and British agricultural productivity increased), the cost of farm support became a serious problem.

Hence, the policy has been somewhat modified in an attempt to set a limit on support costs by closing both ends of the financial commitment.

1. This is intended to act as an inducement to rear calves for beef.

At one end, a system of variable import levies has been instituted to maintain a minimum import price for cereals.[1] This sets a limit to the price subsidy per unit of cereal production. At the other end, the operation of certain price guarantees has been made conditional on the observance of a 'standard quantity' of output. This sets a limit on the number of units subsidised. The variable levies would tend to restrict imports in the same way as tariffs do. The 'standard quantity' arrangements would encourage imports if the quantities were set below maximum potential output.

It has already been stated that farm subsidies limit food imports to a residual role. In case it is not immediately apparent that subsidies to domestic producers are a trade-restricting measure, the following simplified explanation may clarify how they operate in this way. Assuming that domestic food production costs are higher than foreign production costs,[2] free trade will result in all food supplies being imported. A tariff raises foreign prices in the domestic market so as to allow domestic producers to sell their products despite their excess costs. A subsidy enables domestic producers to lower their prices to compete with foreign prices. In both cases, domestic production is given a price advantage over foreign production.

The difference between the two measures is in the *distribution* of the cost of supporting domestic production. In the case of a subsidy, prices to the consumer remain unchanged and domestic excess costs are borne by the taxpayer. On the other hand, a tariff raises the general price level and puts the burden of protection on the consumer; part of the price rise is transferred to the taxpayer in the form of increased revenue from import duties.

One incidental point is that the cost of tariff protection is hidden among 'normal' price rises, while the cost of a subsidy is easily identifiable as a charge on the Budget. In fact, an analysis of the two types of protection in purely budgetary terms would show a tariff as a revenue-raiser and a subsidy as a revenue-spender.

1. Cf. the EEC's Common Agricultural Policy (Chapter 6). Attempts to apply minimum import prices to meat have not succeeded so far.
2. Including costs of transport, insurance, etc.

6 Trade Policies towards LDCs: EEC and USA

This chapter is intended to provide the substance for comparisons between British trade policies towards LDCs and those of the two main markets for LDCs: the EEC and the USA. It does not, however, analyse these latter countries' policies in the same detail as does the previous chapter those of the UK.

1 The EEC

The European Economic Community (known as 'the Common Market') was set up by the Treaty of Rome, signed in March 1957 by Belgium, France, W. Germany, Italy, Luxembourg, and the Netherlands. The Treaty became effective on 1 January 1958. The Treaty provides for free movement of goods in a customs union with a common external tariff, for free movement of persons, services, and capital, and for common policies on trade, agriculture, and transport. It also establishes certain common rules, policies, and institutions, and provides for the accession and association of other countries. A 12-year transitional period was set for its implementation, expiring on 31 December 1969.

The aspects of the Treaty which are relevant to this chapter are the Common External Tariff (CET),[1] the common trade policy, the Common Agricultural Policy (CAP),[1] and the provisions for association contained in Part IV and Article 238 of the Treaty. These are dealt with after the following outline of the pattern of the EEC's trade with LDCs.

Trade between the EEC and the LDCs

Geographical pattern of trade

The EEC as a whole is the world's largest import market, even when trade between EEC members is not taken into account. It is also the largest import market for the LDCs[2] and in particular for the LDCs in Africa

1. In French: Tarif Douanier Commun (TDC) and Politique Agricole Commune (PAC).
2. See Table 33, p. 84.

and the Middle East.[1] The EEC takes about one-quarter of all LDC exports, half of those of African LDCs, and about one-third of Middle Eastern exports.

Within Africa, the EEC has special trade links with its 18 Afro-Malagasy Associated States[2] (EAMA[3]), and also with the Maghreb countries, viz. Morocco, Algeria, and Tunisia. The EEC buys about 70% of the exports of the EAMA and 80% of those of the Maghreb and is also the major supplier of both areas.

Table 38 The African and Malagasy Associated States (EAMA)

ex-French West Africa[1]:	Dahomey	Niger
	Ivory Coast	Senegal
	Mali	Upper Volta
	Mauretania	
ex-French Equatorial Africa:	Central African Rep.	Congo (Brazzaville)
	Chad	Gabon
ex-French colony:	Madagascar	
ex-Belgian colony:	Congo (Kinshasa)	
ex-Trust Territories[2]:	Burundi	(formerly administered by Belgium)
	Cameroon	(formerly administered by France & UK)
	Rwanda	(formerly administered by Belgium)
	Somalia	(formerly administered by Italy & UK)
	Togo	(formerly administered by France)

Notes: [1]French West Africa also included Guinea, which is not associated with the EEC.
[2]Apart from Somalia, the Trust Territories had been German colonies before 1919.

Since its formation in 1958, the trade of the EEC countries has more than doubled and the most dynamic factor in this increase has been their trade with each other. However, as Table 39 shows, trade with non-member countries has also grown considerably since 1958. In particular, the table shows that the net imports of the EEC have risen faster than its net exports, five times as fast in the case of its trade with LDCs. In fact, between 1961 and 1964, the share of LDCs in the total imports of the EEC ceased to decline. Thus, the EEC has provided a growing market for the

1. See Table 5.
2. See Table 38, p. 106.
3. États Africains et Malgache Associés.

LDCs since its formation and the rate of growth of their exports to the EEC has been well above the average for their exports to developed countries as a whole.[1]

Table 39 **Direction of EEC Trade 1958–64**[1]
(excluding intra-EEC trade)[2]

(US $m f.o.b.)

	1958 Value	1958 %	1961 Value	1961 %	1964 Value	1964 %	1958–64 Growth %
EEC Exports to:							
World	15,910	*100*	20,470	*100*	24,170	*100*	*52*
All LDCs	6,220	*39*	6,730	*33*	6,870	*28*	*10*
EAMA[3]	692	*4*	673	*3*	821	*3*	*19*
Maghreb[4]	1,394	*9*	1,305	*6*	934	*4*	*—33*
Other LDC Africa	596	*4*	773	*4*	936	*4*	*57*
Latin America	1,490	*9*	1,720	*8*	1,610	*7*	*8*
EEC Imports from[5]**:**							
World	14,070	*100*	18,240	*100*	24,010	*100*	*71*
All LDCs	5,510	*39*	6,360	*35*	8,410	*35*	*53*
EAMA[3]	731	*5*	782	*4*	932	*4*	*27*
Maghreb[4]	760	*5*	910	*5*	1,030	*4*	*36*
Other LDC Africa	624	*4*	751	*4*	1,435	*6*	*130*
Latin America	1,320	*9*	1,610	*9*	2,180	*9*	*65*

Notes: [1]1958 was the first year of the EEC; 1964 was the year of the Yaoundé Convention.
[2]Intra-trade between EEC members was as follows:
1958: $7,530m; 1961: $11,850m; 1964: $18,390m, growth 1958–64: *144*%.
[3]États Africains et Malgache Associés: the 18 African and Malagasy Associates.
[4]Morocco, Algeria, and Tunisia.
[5]Actually exports *to* EEC from areas listed.

Source: *Les Échanges Commerciaux des Pays en Voie de Développement*, EEC, 1966.

Within the favourable trend for LDC exports to the EEC, there have been considerable variations. Table 39 shows that exports to the EEC from the EAMA and the Maghreb have lagged below the overall average.[2] On the other hand, exports from 'Other LDC Africa' and Latin America, which are the major areas of competition for the EAMA and the Maghreb, have grown at faster than average rates. Exports to the EEC from 'Other LDC Africa' more than doubled in the seven-year period and this area has also been the fastest growing LDC market for EEC exports. EEC exports to the Maghreb countries fell sharply after 1961; the main factor in this fall was the reduction in French exports to Algeria.

1. Average growth of LDC exports 1958–64:
   to all developed countries 5·3% p.a.
   to EEC 7·1% p.a.
   to Japan 15·7% p.a.
2. The poor export performance of Congo-Kinshasa was a major factor in reducing the EAMA export growth rate.

These statistics show that the benefits of economic growth in the EEC have in no way been limited to LDCs with special links with the EEC. In fact, LDCs without such links have in some cases derived the greatest benefits.

Commodity pattern of trade

About 90% of the EEC's imports from LDCs is composed of primary commodities, with a rising share of this trade being accounted for by fuels. Only 10%, therefore, consists of manufactures,[1] and this latter proportion is lower than that of the EFTA countries (including the UK) and of North America. The approximate share of LDCs in the EEC's total imports of primary commodities is 50% (80% in fuels) and in manufactures 10%. In imports of textile yarn and cloth,[2] the share of LDCs is about 5%.

The EEC is the largest market for the LDCs' primary commodity exports as a whole, in particular for raw materials and fuels.[3] Among the developed countries, it is the second largest market for the LDCs' exports of manufactures. Its share in the LDCs' commodity exports is rising but it is falling in manufactures.

EEC Trade Policies

The Common External Tariff

The Treaty of Rome provided for the elimination of all customs duties between the six member states during the 12-year transitional period ending on 31 December 1969. During the same period, the national tariffs of 'the Six' were to be aligned to a Common External Tariff. A three-phase timetable was laid down for both these processes but this was later accelerated and the final phase of each will take place on 1 July 1968. On that date, the customs union of the EEC will become fully effective.

The level of the CET was set in principle at the arithmetical average of the tariffs applied on 1 July 1957 by France, Germany, Italy, and Benelux.[4] There were several exceptions to this principle, some laid down in the Treaty and some negotiated subsequently. However, the general result, in broad terms, was that the CET was set half-way between the lower tariffs of Germany and Benelux and the higher ones of France and Italy. It was subsequently reduced by 20% on several items as a result of the 1962 GATT negotiations ('the Dillon Round').

The CET compared with UK and US tariffs[5]

The structure of the CET is thus remarkably uniform. While the level of

1. Including semi-manufactures here and throughout this section.
2. SITC 65; excluding clothing.
3. SITC 2+4 and 3. Some figures for imports of individual commodities by EEC member countries appear in Chapter 3.
4. The Belgium-Netherlands-Luxembourg customs union, which had a common tariff.
5. The source of these comparisons is *EEC Community Topics*—12, August 1964, and refers to pre-Kennedy Round rates.

the tariff tends to rise with the degree of processing, 80% of the tariff items are concentrated in the duty range of 4%–19%. A further 13% of the tariff items lie between 0%–4%. Items bearing duties of 30% and above are very few, with a maximum rate of 40%.

By comparison, the duty rates of the UK and the USA are more widely spread than those of the CET. The UK Full rate tariff is concentrated around three separate 'peaks': 5%–10%, 15%–20%, and 30%–35%, with maximum rates above 60%. The US tariff is the most evenly distributed of the three, with the greatest frequency of very high duties.

A simple arithmetic average of duty rates on all non-agricultural tariff items shows a result of 18·4% for the UK, 17·8% for the USA, and 11·7% for the CET.[1] A breakdown of these averages into four main product categories shows that the EEC tariff is the lowest in all four (see Table 40). In fact, the only major industrial sector in which the EEC tariff average is not the lowest is that of paper products, in which the three averages are roughly equal, with that of the USA being marginally the lowest.

Table 40 Average Tariff Levels: EEC, USA, and UK

(% *ad valorem*)

	EEC (CET)	USA	UK (Full rate)
All non-agricultural items	11·7	17·8	18·4
Raw materials and energy	1·5	8·1	6·3
Semi-finished goods	10·7	16·5	18·0
Capital equipment	11·7	17·0	19·4
Other products	14·4	21·3	20·4

Note: Pre-Kennedy Round tariffs. Simple unweighted arithmetical averages of tariff items, calculated by the EEC Statistical Office.

These comparisons are all based on tariffs prevailing before the Kennedy Round. When a fresh comparison can be made, it will probably show that some of the disparities between the CET and the US and UK tariffs have been reduced by the tariff cuts agreed in the Round. The comparisons are also based on non-preferential tariffs, i.e. they do not take into account the duty exemptions allowed by the EEC to associated countries, and by the UK to the Commonwealth and EFTA. Finally, the averages are of nominal tariff rates and do not give a measure of effective protection. For a comparison of some effective rates of protection applied by the EEC, the USA, and the UK, see Table 31 on page 82.

The above description of the CET is limited to its application to non-agricultural items. For temperate agricultural commodities, the principal means of protecting domestic producers is not the CET but the Common

1. All these rates will be reduced substantially (by about 40%) over the next five years as a result of the Kennedy Round tariff cuts. The average CET will fall to about 6% or so on non-agricultural products.

Agricultural Policy which is described below. The CET *is* the main regulator of imports of tropical commodities but, since EEC policy on tropical commodities is determined in relation to needs of the EAMA, this aspect of the CET is explained in the section below on the Yaoundé Convention of Association.

Import quotas

Import quotas and other quantitative restrictions on trade between EEC members were abolished by 1961, eight years in advance of schedule Quantitative restrictions on external trade should eventually be administered as part of a common EEC trade policy, which will in addition cover other matters such as bilateral trade agreements, action on subsidies and dumping, export promotion, and tariff negotiations. So far, this common trade policy has been implemented only in respect of tariff negotiations and, to an incomplete extent, of bilateral agreements. In particular, import quotas remain under the control of the national customs authorities in the EEC.

The EEC countries all maintain import quotas on cotton textiles under the GATT Long Term Arrangement.[1] The Arrangement provided that these quotas should be substantially liberalised. The target for the EEC was a rise in restricted imports from 6,000 tons in 1962 to 12,000 tons in 1967. By 1966, quotas granted had exceeded 11,500 tons, mainly for imports from Japan and India. In addition, unrestricted imports into the EEC were well in excess of those in restricted categories. France maintains some additional import quotas on cotton textiles outside the provisions of the Long Term Arrangement.

The following EEC countries impose quantitative restrictions of one sort or another on manufactured products, other than cotton textiles, of interest to LDCs:

(a) France:[2] on canned fish, tobacco manufactures, leather, jute and coconut fibre manufactures, and sporting goods.
(b) Italy: on tobacco manufactures.
(c) Germany: on jute and coconut fibre manufactures, leather, and wool yarns, fabrics, and clothing.

In addition, all the EEC countries maintain quantitative restrictions on imports of temperate agricultural products and their substitutes, of which those on sugar are of particular interest to LDCs. On tropical products, Italy uses quotas to assure access to its market of bananas from Somalia and dried fruit from Libya.

Many of the above restrictions are applied in contravention of the rules of the GATT, of which all the Six are members.

Revenue duties on tropical products

France, Germany, and Italy impose high revenue duties on tropical beverages. For example, German duties on coffee and tea are estimated to double the prices of these products.

1. See Chapter 8.
2. France does not notify the GATT of import restrictions and this list may be incomplete.

Common Agricultural Policy (CAP)

The objectives of the CAP are 'to increase agricultural productivity, to ensure a fair standard of living for the agricultural community, to stabilise markets, to guarantee supplies, and to ensure the delivery of supplies to consumers at reasonable prices'.[1]

The achievement of these objectives is being sought by a policy based on:

(a) common organisation of markets for each commodity;
(b) common price aims for each commodity;
(c) common financing arrangements.

What this means in practice is that the Six have negotiated 'internal commodity agreements' on each of the main commodities produced in the EEC. These negotiations have in some cases been very protracted because of the conflicting interests of different members and have given rise to periodic crises within the EEC. However, agreement in principle has now been reached on nearly all the commodities involved.

The individual agreements are very complex and some have not been fully worked out as yet, so they cannot be described here. However, they all have a common feature which is the principle that a *common price* should be set for each commodity and that this should be supported by *variable levies* on imports.

For example, if the sugar price is set at £80 per ton and imports are available at £30 per ton, a levy of £50 per ton will be applied. If the import price falls to £20, the levy will be raised to £60, and so on.[2] Thus, the variable levy ensures that imports cannot enter the EEC at a price below that set by the CAP; they are not allowed to compete with internal production.

Furthermore, since the tendency is to set common prices at a level which encourages inefficient producers to stay in the market, the CAP tends to increase the level of agricultural self-sufficiency within the EEC and thus further to reduce the volume of imports.

The CAP is definitely protective and the cost of protection is borne by the consumer in the form of higher prices.[3] It is the consumer, therefore, who is the main source of finance for the CAP. In addition, an Agricultural Guidance and Guarantee Fund has been established. The object of the Guidance Section is to finance improvements in the structure of agriculture in the EEC; that of the much larger Guarantee Section is to finance support buying of commodities when prices are depressed below the set targets and to subsidise exports of surpluses. The Fund is to be financed by the proceeds of import levies, supplemented by contributions from member governments. The financing of the Fund remains a major bone of contention between EEC members. Present financing arrangements are only transitional, and will expire at the end of 1969.

1. Treaty of Rome quoted in Cmnd. 3274, HMSO, May 1967.
2. This is an oversimplified example since there is often a range of support prices.
3. Cf. British agricultural support from the Exchequer. See Appendix C (Chapter 5).

Preferential Arrangements

In principle, the import policy provisions of the CAP are applicable to imports from all sources outside the EEC. Certain *ad hoc* amendments to this principle have been made to mitigate the effect of the CAP on the exports of associated countries. For example, the variable levy on rice from associated countries is imposed at a reduced rate, and 'levy-free' quotas have been opened for products processed from rice and cereals. In the sector of vegetable oilseeds and oils (an important export sector for some associated countries, notably Senegal) arrangements have been made to subsidise associated countries' exports to the extent of any shortfall of world prices from predetermined target prices.

By contrast to the CAP, the CET is subject to a long list of exceptions which constitute a series of preferential arrangements between the EEC (or one or more of its members) and other countries. All the countries presently covered by these arrangements could be classified as LDCs, although two of them—Greece and Turkey—are in 'Western Europe' and are usually classified for convenience as developed countries.

Present arrangements

The preferential exceptions to the CET are as follows:

(a) **Overseas Departments of France (DOM):**[1]

The Caribbean territories of Guadeloupe, Guyane, and Martinique, together with the Indian Ocean territory of Réunion, are overseas departments of France and juridically part of France itself. The DOM are therefore treated as part of the EEC and their products—mainly sugar and bananas—are treated as internal products. This means that sugar from the DOM *benefits* from the CAP support price.

(b) **Overseas Territories (TOM):**[2]

The TOM consist of the remaining Dutch and French Dependencies, including Surinam, French Somaliland, and several islands in the Atlantic, Pacific, and Indian Oceans. These territories are all associated with the EEC under Part IV of the Treaty of Rome and their terms of association are similar to but distinct from those of the EAMA. Their main exports are copra, rice, spices, essential oils, and—from New Caledonia—nickel. In 1964, the combined exports of the DOM and the TOM to the EEC were worth about $300m and their combined imports from the EEC about $200m. Most of this trade was with France.

Apart from any special arrangements which they may have with their metropolitan countries, the TOM are granted the same tariff treatment in the EEC as is applied to intra-EEC trade (i.e. reduced duty, becoming duty-free on 1 July 1968). However, the TOM are not exempt from import levies imposed under the CAP.[3] In return, the TOM are committed to extend to all EEC members the conditions of access granted to imports

1. Départements d'Outre Mer (DOM).
2. Territoires d'Outre Mer (TOM).
3. Though some concessions are made.

from their metropolitan countries and further to liberalise their imports from the EEC. In addition to these trade arrangements, the TOM receive aid from the European Development Fund (FED).[1]

(c) **Associated African and Malagasy States (EAMA):**

These countries were associated with the EEC under Part IV, together with the TOM, when the EEC was first formed. The first Convention of Association ran for five years from 1958 to 1962. By the time it expired, these 18 states had gained their independence, so the second Convention was negotiated on the basis of the sovereign equality of all parties, and separate arrangements were made with the remaining dependencies.[2] Agreement was reached at the end of 1962 and the Convention was signed at Yaoundé (Cameroon) in July 1963. It took effect from 1 June 1964 and expires on 31 May 1969.

Since the Yaoundé Convention embodies the most important preferential relationships between the EEC and LDCs, it is described in a separate section of this chapter.[3]

(d) **Nigeria:**

The first Convention of Association was originally limited to the dependencies of EEC members and later to ex-dependencies. The Yaoundé Convention opened the way for other countries with comparable 'economic structure and production' to establish formal links with the EEC. Nigeria was the first country to take advantage of this opportunity and signed a special association agreement with the EEC in July 1966.[4] This agreement will expire concurrently with the Yaoundé Convention.

In 1965, the EEC and the UK each took about $280m of Nigeria's exports—a combined share of 75%. Nigeria, as a Commonwealth country, enjoys preferential free entry into the British market. It has now obtained similar conditions of access to the EEC. On all but four of its export products, Nigeria will receive the same treatment as the other associates (viz. duty-free entry from 1 July 1968). The four exceptions are cocoa beans, palm oil, groundnut oil, and plywood. These Nigerian products compete directly with those of the EAMA and, since the latter are largely dependent on the EEC as a market, it was felt that they needed to be protected against a sharp increase in this competiton. In respect of each of these four products, therefore, Nigeria is guaranteed duty-free entry into the EEC only up to the limit set by an annual quota. Any imports from Nigeria in excess of the quota are subject to the import duties in the CET. The duty-free quotas are increased by 3% p.a.[5]

In addition to this preferential treatment, Nigeria can request special consideration from the EEC if its exports are affected by the CAP. However, Nigeria is not eligible for aid from the FED.

1. Fonds Européen de Développement (FED)
2. Guinea, which had been associated under the first Convention, did not participate in the second.
3. P. 116 ff.
4. This agreement has not yet been ratified.
5. The initial quotas for 1966 were based on average imports from Nigeria in 1962–4, viz. cocoa beans 70,900 tons; groundnut oil 6,900 tons; palm oil 32,900 tons; plywood 590 tons. The CET on these four products is, in the same order: 5·4%, 10%, 9%, 10%.

In return for these trade concessions, Nigeria has conceded token preferences to the EEC on a list of 26 products accounting for only 4% of its total imports and 8% of its imports from the EEC.[1] Apart from this minor change, Nigeria managed to maintain its non-discriminatory tariff.

The immediate effect of the Nigerian association agreement has been to consolidate Nigeria's trading position in the EEC without disrupting its Commonwealth links and without arousing the opposition of the EAMA. The long-term significance of this agreement is that it has established a workable precedent for the extension of association beyond the traditional spheres of interest of France and its EEC partners.[2] Thus, whether or not Britain joins the EEC, it is possible that when the third Convention of Association comes to be negotiated Commonwealth African countries, including Nigeria, will be among those seeking to participate in it.

(e) **Bilateral waivers:**

A protocol to the Treaty of Rome[3] enables individual member countries to continue to accord preferential treatment to imports from countries to which they had granted such treatment previously. These waivers now apply to:

(i) France, in respect of trade with Morocco, Tunisia, Vietnam, Cambodia, and Laos;

(ii) Italy, in respect of trade with Libya.

(f) **Algeria:**

Before its independence in 1962, Algeria was juridically composed of three departments of metropolitan France and was therefore part of the EEC proper. After independence, Algeria did not join the Convention of Association but continued to be treated as part of the EEC for tariff purposes.[4] This *de facto* arrangement was partially curtailed by some EEC members in 1966. However, duty-free entry of Algerian exports into France was maintained.

Petroleum and natural gas are now Algeria's main exports, having overtaken Algeria's traditional trade in wine, citrus fruits, and vegetables. Despite this diversification, Algeria is still almost entirely dependent on the EEC as an export market, sending 75% of its exports to France alone.[5] Algeria also relies on France for the bulk of its imports, including essential foodstuffs. It is probable therefore that Algeria will seek to re-establish a formal relationship with the EEC and a proposal to this effect was made by the EEC in 1966.

(g) **Greece and Turkey:**

Although not eligible for association with the EEC under Part IV,

1. The list includes pasta, tomato purée, cognac, and champagne. It does not include any products of great importance. The margin of preference conceded is between 2% and 5%.
2. Germany and the Netherlands have been the leading proponents of such an extension. Neither country has possessed colonies in Africa for a long time and they have both been uneasy with the general image of Part IV association as a 'Francophone closed shop'. Germany is Nigeria's principal trading partner in the EEC.
3. Sometimes referred to as the 'Morocco Protocol'.
4. Algeria also continued to receive aid from the FED.
5. In 1964, Algerian exports to the EEC amounted to $701m and its imports from the EEC to $539m. These figures form part of the Maghreb trade figures in Table 39.

Greece and Turkey are associated under Article 238, which provides for association on the basis of reciprocity.

Greece has been associated with the EEC since 1 November 1962. EEC tariffs on imports of Greek products are being eliminated over a 12-year transitional period (to 1974). Greek tariffs on EEC products are also being reduced but in some cases need not be eliminated until 1984. Greece will eventually adopt the CET as its own tariff. In due course, these measures will establish a customs union between Greece and the EEC, and other economic policies will be co-ordinated. Greece has now begun to receive loans from the European Investment Bank (EIB).[1] Ultimately, it is envisaged that Greece will be able to apply for full membership to the EEC.

A similar agreement between the EEC and Turkey became effective on 1 December 1964. It provides for a preparatory period of 5 to 9 years, followed by the establishment of a customs union over a 12-year transitional period. Again, the ultimate aim is full membership for Turkey. During the preparatory period, Turkey is receiving loans from the EIB and has been granted duty-free quotas for tobacco, raisins, dried figs, and nuts. These products make up 40% of Turkey's exports.

(h) **Trade agreements:**

The EEC has entered into trade agreements with Iran and Israel.[2] The agreement with Iran provides for temporary non-discriminatory reductions in the CET on some products of interest to Iran (carpets, caviar, and dried fruit). It is a three-year agreement and was renewed in 1966. The 1964 agreement with Israel grants similar concessions on 21 products of interest to Israel. Israel has since requested negotiations for association with the community.

Possible future arrangements

These special relationships are interesting in themselves and also because they provide a wide range of precedents for the future development of such relationships between the EEC and other countries, for example Commonwealth LDCs. Possible new associations are listed below:

(a) **The Maghreb:**

The probability of some form of association between Algeria and the EEC has already been mentioned. The other two Maghreb countries, Tunisia and Morocco, have already started formal negotiations for association, based on the formula of a free trade area between each of these countries and the EEC.

Tunisia and Morocco are both dependent on the EEC, especially France, for most of their export earnings, though less so than Algeria. They have agricultural exports similar to those of Algeria. In addition, Tunisia exports phosphates, olive oil, and wheat, and Morocco, phosphates (one-quarter of its exports), metals, and canned fish. Both countries are granted

1. The EIB provides development loans mainly to EEC members and European associates. It is distinct from the FED, which is concerned with aid to LDCs.
2. Also a most-favoured-nation agreement with Lebanon.

duty-free quotas by France, under the 'Morocco Protocol', but face the CET on exports to the other EEC members. Formerly, France guaranteed Tunisia a fixed price, above world market prices, for the bulk of its exports of wheat and wine.[1] Since 1963, France has withdrawn its price guarantee on Tunisian wheat and its purchases of Tunisian wine have been intermittent. Tunisia thus faces a serious export problem. Morocco, on the other hand, enjoys a favourable trade balance with the EEC but its exports are stagnating. Both countries face growing competition in the EEC market from countries already associated and from domestic production in the EEC.

(b) **Commonwealth Africa:**

The three countries of the East African Common Market have been negotiating with the EEC on and off since 1964. Negotiations were suspended over the principle of reciprocal preferences to be granted by the East African countries to the EEC but were resumed late in 1966, with the principle apparently conceded by the East Africans. It is therefore possible to conceive of an association agreement for these countries along Nigerian lines, in this case with duty-free quotas for coffee.[2] Problems might be raised by Kenya's temperate agricultural exports.

So far, no other Commonwealth African countries have approached the EEC, but their association was considered during the previous negotiations for British entry into the EEC and may yet be again in similar circumstances.[3]

(c) **Middle East and Southern Europe:**

Israel's request for association has already been mentioned. Cyprus made a similar request during the British negotiations and Portugal requested 'closer co-operation' at the same time. Both these latter requests have been suspended. Preliminary talks between Spain and the EEC have been taking place since 1962, with no result as yet. Malta has recently requested negotiations for some form of association.

(d) **Northern Europe:**

In May 1967, Britain made a second application to become a member of the EEC. As with the previous application, it was followed by applications from Denmark, Ireland, and Norway. Sweden also applied again for association; Switzerland, so far, has not. Formal negotiations for association between Austria and the EEC have been in progress since 1965. The Austrian application was the only one (of those of the EFTA countries) to survive the breakdown of the previous British negotiations.

The Yaoundé Convention of Association

As has been mentioned above, the Yaoundé Convention of Association between the EEC and the 18 African and Malagasy States (EAMA)[4]

1. This guarantee was extended in return for tariff preferences granted by Tunisia to French products.
2. Cotton, tea, sisal copper, and hides, among East Africa's main exports, are free of duty in the CET.
3. See Chapter 5.
4. A list of the EAMA is given in Table 38.

became effective on 1 June 1964 for a five-year period. Fourteen of these 18 countries had previously been under French colonial administration[1] and thus participated in the system of French colonial trade. The effect of this system was to set up a closed circle in which the French colonies were largely dependent on France for their imports and exports, and much of the trade between France and the colonies was carried on at prices above those prevailing in the world market.

The first Convention of Association (1958–62), under Part IV of the Treaty of Rome, provided for the gradual multilateralisation of exchanges between the Six and their dependencies but in practice it left the French trading system virtually unchanged. However, the attainment of independence by the 14 French colonies emphasised the need for a diminution of their economic dependence on France. The Yaoundé Convention is a step in this direction. It represents an attempt to enable these ex-French countries of tropical Africa to participate in the trading opportunities available in competitive world markets. At the same time, it offers these countries the security of guaranteed financial assistance, from the EEC as a whole, during the transitional period in which the French trading system is being dismantled.[2]

French trade with Tropical Africa[3]

The process of dismantling the French system is still incomplete, and the following brief outline may serve to explain some of its remaining features and also to clarify the relationship between the Yaoundé Convention and the system which it was designed to replace.

The basis of the French trading system was the Franc Zone. All the 14 ex-French EAMA are members of the Zone.[4] Their currencies, known collectively as the CFA Franc,[5] are not backed by reserves but are freely interchangeable with the French Franc. All external transactions of the 14 are conducted in French Francs, so that their external accounts are kept by the French Treasury. The sharing of what is virtually a common currency acts as an incentive to trade within the Franc Zone.[6] In addition, it puts the French Treasury in a position to influence the CFA countries' monetary and trade policies, especially as CFA trade deficits with non-Franc countries have to be financed out of France's exchange reserves.

This monetary system is still in existence. In the past, it was supplemented by restrictive quotas imposed by France on non-Franc imports

1. The four exceptions are: Somalia, Congo (Kinshasa), Rwanda, and Burundi.
2. Of course, the Convention also applies to the ex-Belgian and ex-Italian countries, but these have always traded at more or less competitive prices. It could in fact be said with a large measure of truth that the principal function of the Convention is to meet the special needs of the ex-French colonies, while sharing out some of the responsibility for their development from France to the other EEC members.
3. Teresa Hayter's *French Aid*, ODI, 1966, gives a good impression of the philosophy underlying French colonial policy in Africa. For a detailed explanation, in English, of French monetary and commercial policy in Tropical Africa, see 'The CFA Franc System' in IMF *Staff Papers*, Vol. X, No. 3, November 1963.
4. Guinea left the Zone in 1960. Mali loosened its links in 1962 but restored them in 1967.
5. CFA = Communauté Financiére Africaine. One New French Franc = 50 CFA. CFA Francs are issued by the Central Banks of West Africa, Equatorial Africa, and Madagascar. The Mali Franc is on a par with the CFA Franc.
6. The CFA Franc is overvalued in relation to other currencies since it did not follow the French Franc in all the latter's post-war devaluations. Overvaluation reduces export competitiveness in world markets and is a further incentive to intra-Zonal trade.

into the Franc Zone. Since the independence of the CFA countries, these quotas have been negotiated bilaterally with France and are now being removed on imports from the EEC countries.

French trade policy included the exchange of tariff preferences between Franc Zone countries. France exempted all imports from the Franc Zone from its relatively high tariff. Some CFA customs territories (Equatorial Africa, Cameroon, and Madagascar) did not reciprocate these preferences, while others exempted France from their customs duties (*droits de douane*) but not from their non-discriminatory fiscal import duties (*droits fiscales à l'importation*).[1] Such mutual preferences as existed between France and the CFA countries have now been subsumed in the preferences exchanged between the EEC and the EAMA.

The most significant feature of the French system, however, was the deliberate regulation of prices in trade between France and the Franc Zone. The resultant differential between the fixed prices and those in competitive world markets was known as the '*surprix*'. The *surprix* was evident in trade in both directions between France and the CFA countries.[2] On the one hand, each CFA country agreed to buy a minimum quantity of French goods and, within this quota, to buy minimum quantities of specified products at agreed prices. On the other hand, France undertook to buy agreed quantities of specified commodities from each CFA country, again at fixed prices, and imposed quotas on imports of these commodities from other countries.

French exports sold in this way included wheat, sugar, dairy products, textiles, cars, and domestic appliances. The average *surprix* on French exports in 1961 has been estimated at 58% for foodstuffs and 35% for printed cottons.

CFA exports benefiting from the *surprix* included coffee, groundnuts and oil, bananas, palm oil, and several other tropical products. In addition, CFA sugar received the French domestic support price and France paid price subsidies to CFA cotton producers. The notable exception from the *surprix* régime was cocoa.

CFA products receiving *surprix* were exported largely to France, while unsupported products were sold competitively in diversified markets. France, for its part, looked to the CFA countries for the bulk of its supplies of tropical products. Before the 1958 devaluation of the French Franc, the balance of the *surprix* was in favour of France, though less so as world commodity prices fell from the mid-1950s. The 1958 devaluation reduced the *surprix* on French exports and swung the balance in favour of the overseas countries. Table 41 shows the estimated gross *surprix* paid by France to the CFA countries in 1961.

As has already been implied, the system of the *surprix* gave the CFA countries security but made them very dependent on France. It also isolated them from market incentives to improve their productivity and

1. All the CFA countries have this dual tariff structure.
2. The Maghreb countries (especially Algeria) and the French DOM and TOM also participated in *surprix* arrangements with France.

Table 41 CFA Countries: Exports and *Surprix* 1961

(million French Francs)

	Value of exports to all countries	Share of total, %	Est. *Surprix* on exports to France	Principal CFA producers
Coffee (all types)	672	*21*	208	Ivory Coast, Madagascar, Cameroon
Groundnuts	347	*18*	20	Senegal, Niger, Mali
Groundnut oil	241		41	
Wood and wood products	453	*14*	—	Ivory Coast, Gabon, Congo (B), and Cameroon
Cocoa	355	*11*	—	Ivory Coast, Cameroon
Minerals	205	*6*	—	Gabon, Mauretania
Cotton	158	*5*	10[1]	Chad, Cameroon, Central African Republic
Other products	538	*25*	64[2]	
Total	Fr. 2,119m	*100*	Fr. 343m	

Notes: [1]Price subsidies paid to producers by France.
[2]Including Fr. 25m on sugar and Fr. 26m on bananas.

Source: 'The CFA Franc System', in IMF *Staff Papers*, vol. X, No. 3, November 1963.

diversify their economies. On the French side, however, exports to the CFA countries played a very minor part in French trade as a whole and the *surprix* on French exports was only important for those which were not normally competitive (e.g. cotton textiles).[1]

The present pattern of trade between France and the CFA countries is still recognisable as similar to that which prevailed in the past. However, the mechanisms which established that pattern—import quotas, preferences, and *surprix*—are being gradually phased out of existence by the implementation of the Yaoundé Convention and are being replaced by a more dynamic EEC trade policy.

A new trade policy for the EAMA

The principal objective of the Yaoundé Convention is the establishment of a series of free trade areas between the EEC as a whole and each of the 18 EAMA countries (or customs unions[2]) in which goods, services, and capital will move freely and competitively. The Convention does not provide for the liberalisation of trade *between* the EAMA, though this was one of the objectives of Part IV of the Treaty of Rome. The Convention establishes certain common political and conciliatory institutions.[3]

1. In 1964, the CFA Countries accounted for 6% of French trade; the rest of the Franc zone for 10%.
2. Seven of the EAMA form the West African Customs Union and another five the Equatorial African Customs Union (see Chapter 4). Each Union has a common tariff policy on trade with the EEC.
3. The Association Council (Ministerial), the Parliamentary Conference, and the Court of Arbitration.

The main trade policy provisions of the Convention are as follows:

(a) **Tariffs:**

(i) *EEC:* Each of the Six members undertakes to extend to all the EAMA the tariff reductions agreed between the Six, leading to eventual tariff elimination on all imports from the EAMA (as from 1 July 1968).

In addition, the Six agreed to immediate tariff elimination on nine tropical products of interest to the EAMA and, simultaneously, to establish the CET on these nine products, though at lower rates than those originally set.[1] Preferences in the EEC for the EAMA against non-associated countries were thus established immediately for these nine products and gradually for all others.

CET duty rates on some tropical commodities are given in Table 42 Special waivers were granted by the Treaty of Rome for duty-free quotas of imports from non-associated countries of unroasted coffee into Italy and the Benelux countries and of bananas into Germany. The waivers on coffee are transitional but that on bananas is permanent. The main beneficiaries of these waivers are the traditional Latin American suppliers of coffee and bananas to the countries mentioned.

Table 42 The Common External Tariff of the EEC on Tropical Commodities

Commodity	CET (%)
*Cocoa beans	5·4
Cocoa butter, paste, and powder	22–27
*Coffee, raw	9·6
*Tea	0[1]
*Vanilla	11·5
*Pepper, cloves, nutmeg	15–17
*Fresh pineapples	9
*Coconuts	4
Wood, rough	0
Sawn wood, plywood	10
Raw fibres	0
Vegetable oilseeds	0
Vegetable oils	4–10
Sugar, raw	80
Tobacco	30
Bananas	20

Note: The nine commodities for which the CET was established in advance are denoted by an asterisk (*).
[1]Tariff of 10·8% suspended.

1. The reductions were made after strong pressure from the USA and other countries.

(ii) *EAMA:* The undertakings of the EAMA regarding tariff elimination apply only to customs duties. Fiscal import duties remain intact.

The EAMA agreed to end any tariff discrimination between EEC members within six months from 1 June 1964. This applied only to the West African Customs Union, which extended to all the Six the exemption from customs duties previously granted to France. Madagascar and the Equatorial Customs Union had freed EEC products from customs duties in 1961 and 1962 respectively. The remaining five associates (Togo and the four non-CFA countries) were required to reduce their customs duties by 15% p.a.

As a general exception to the above, the EAMA are allowed, after consultation with the EEC, to retain non-discriminatory customs duties against the EEC for budgetary, protective, and development reasons.

The Convention does not specify that tariff reductions by the EAMA should be preferential in favour of the EEC. It only stipulates that the EEC must receive m-f-n treatment and waives even this requirement if it should stand in the way of the formation of customs unions and free trade areas between associates and between associates and other countries. However, it appears to be understood that preferences in favour of the EEC and against other developed countries are required *de facto*.

(b) **Quotas:**

(i) *EEC:* The EEC countries agreed to abolish all quotas on imports from the EAMA as they had previously done among themselves. This applied mainly to France and meant that the *surprix* system on CFA exports became exposed to competition from the four non-French EAMA.

(ii) *EAMA:* The EAMA countries also agreed to abolish quotas on EEC imports, but over the first four years of the Convention. This does not preclude the retention of quotas by Franc Zone countries on imports from non-Franc countries other than the EEC. However, it signifies the end of the minimum import quotas on which France earned its *surprix*.

As with tariffs, the EAMA countries may take advantage of a general exception to retain non-discriminatory quotas against the EEC for reasons of balance of payments, industrialisation, and the maintenance of agricultural support schemes.

(c) **The CAP:**

The Convention provides for consultation between the EAMA and the EEC on the effects of the CAP on the exports of the EAMA (such as rice, sugar, vegetable oils, and tobacco).

The role of the FED

The elimination of quotas on trade between France and the CFA countries implied the end of the *surprix*. The Yaoundé Convention established the principle that the CFA countries should be compensated for the loss of the *surprix* by financial assistance from the European Development Fund (FED).

The first FED, set up under the first Convention, disposed of some \$580m to all the associated countries and territories. The second FED, established under the Yaoundé Convention, was allocated \$730m,[1] plus a \$70m loan facility made available by the European Investment Bank (EIB). Of the total sum of \$800m, \$730m was earmarked for the EAMA and \$70m for the DOM and TOM. This latter \$730m is made up of \$620m in grants, \$46m in 'soft' FED loans, and \$64m in 'normal' EIB loans.[2]

Of the \$730m allocated to the EAMA for the Convention period, \$500m is to be spent on normal aid and technical assistance. The balance of \$230m is to be given as 'aid for production and diversification'. This aid is intended to provide compensation for loss of *surprix* and to enable the CFA countries to produce at competitive prices. Aid for production is in grant form and may be used to support commodity prices, and to improve the productivity of those commodities which relied on the *surprix*. Its allocation among the EAMA is in proportion to their dependence on the *surprix* system. Aid for diversification is available in grants and loans to develop new crops and new industries.

Aid for production and diversification has been allocated among the EAMA as follows:

(a) \$183m to 11 '*surprix* countries', of which three-quarters is for production and one-quarter for diversification, with the production element tapering off over the five-year period. The 11 countries are the CFA countries less Gabon, Mauretania, and Upper Volta. The main recipients among them are Ivory Coast and Senegal (\$46·7m each), Madagascar (\$31·6m), and Cameroon (\$15·8).

(b) \$15m, for diversification only, to Gabon, Mauretania, and Upper Volta, whose main export products were not affected by the *surprix* and which agreed to trade at competitive prices from the start of the Convention.

(c) \$32m, for diversification only, to the four non-CFA associates, of which \$15m to Congo (Kinshasa).[3]

In addition the FED is empowered to make short-term advances to commodity price stabilisation funds, up to a maximum amount outstanding of \$50m.

The implementation of the Convention

On the whole, the Convention is being faithfully observed by all parties. As far as the EEC is concerned, EAMA products will enter free of all restrictions on 1 July 1968, which is also the date for the full implementation of the CET and thus of EAMA preferences. Special treatment for the EAMA under the CAP has been mentioned above.

All the CFA countries except Togo now grant preferential exemption

1. Of which France and Germany each subscribed \$246·5m.
2. The FED may grant interest rebates on EIB loans.
3. Apart from tariff preferences granted by Belgium, the three ex-Belgian countries traded in competitive conditions. Somalia was in a similar position with Italy, but the latter used to pay a form of *surprix* on Somali bananas.

from customs duties to EEC products, with a few exceptions for protective and revenue reasons. Rwanda is reducing its tariffs on EEC goods on a preferential basis. Togo, Congo (Kinshasa), Burundi, and Somalia, all previously non-preferential countries, were granted a three-year postponement of their obligation to reduce tariffs and their case is to be reviewed. Quota elimination is proceeding but several associates have retained certain quotas for protective purposes (e.g. Senegal on lorries, Ivory Coast on petroleum products, the Equatorial Customs Union on sugar).

The *surprix* on French exports has ended. The *surprix* on CFA exports of coconuts, cotton, palm oil, pepper, and gum was ended in 1964; that on coffee has been gradually reduced and is due to be ended in 1967. The elimination of the *surprix* on sugar, rice, groundnuts, and oil is being phased out in step with the implementation of the CAP. The *surprix* on groundnuts and oil should have been terminated in 1964/5 but is being extended on an *ad hoc* basis from year to year. The *surprix* remains on pineapples, preserved fish, and—most important—on bananas. In the latter case, France, Italy, and Germany are maintaining their bilateral trading arrangements with preferential suppliers.

The FED has been active along the lines laid down. At 30 June 1966, it had committed \$27·7m in price supports and \$19·9m for increased productivity—a total of \$47·6m in aid for production to nine countries. At the same date, it has also committed \$50m in aid for diversification and had advanced \$6m to the Cocoa Price Stabilisation Fund in Cameroon.

2 The USA

Since the USA follows a policy of non-discrimination towards imports, examples of preferential treatment towards LDC exports are limited. This section is therefore less extensive than the preceding section on the EEC.

Geographical pattern of trade

The USA constitutes the second largest import market in the world and occupies the same position among markets for LDCs as a whole,[1] taking about 18% of LDC exports in 1965. It is the largest single market for Latin America, which sells about 30% of its exports in the USA. It is also the largest developed country market for the exports of less developed Eastern Asia.

Table 43 shows, however, that the share of the LDCs in US imports has been declining in the 1960s, while their share of US exports remains stable. Trade with LDCs on both accounts now makes up just over 30% of US trade. Latin America is the major LDC market for the USA

1. See Table 33, Chapter 5.

and also the major LDC supplier, accounting for about half of US trade with LDCs. Trade between the USA and Latin America is growing slowly and Latin American exports to the USA in 1965 were slightly lower than in 1960. The most dynamic LDC trading partner for the USA is less developed Eastern Asia; US trade with this area has maintained its share of the total over the period shown. However, even this substantial growth is surpassed by that in trade with Japan.

Table 43 **Direction of US trade; 1960 and 1965**

(US $m f.o.b.)

	1960		1965		1960–5
	Value	%	Value	%	Growth %
US Exports to:					
World	20,380	*100*	27,060	*100*	*33*
All LDCs	6,510	*32*	8,380	*31*	*29*
of which:					
Latin America	3,440	*17*	3,700	*14*	*8*
Africa	750	*4*	770	*3*	*3*
'Eastern Asia'[1]	1,810	*9*	2,680	*10*	*48*
Japan	1,330	*7*	2,050	*8*	*54*
US Imports from:					
World	14,740	*100*	20,850	*100*	*41*
All LDCs	5,940	*40*	6,710	*32*	*13*
of which: Latin America	3,590	*24*	3,480	*17*	*—(3)*
Africa	565	*4*	590	*3*	*4*
'Eastern Asia'[1]	1,185	*8*	1,640	*8*	*38*
Japan	1,110	*8*	2,520	*12*	*127*

Note: [1]'Eastern Asia' = 'Other Asia' as defined in Appendix A p. 28.

Sources: UN *Yearbook of International Trade Statistics 1964.*
UN *Monthly Bulletin of Statistics*, June 1966.

Commodity pattern of trade

About 80% of US imports from LDCs are composed of primary commodities and 20% of manufactures. The approximate share of LDCs in total US imports of primary commodities in recent years has been 60% (80% in fuels) and in manufactures 14% (36% in textile yarn and cloth). The USA is the largest developed country market for manufactures. It is also an especially important market for certain primary commodities. The USA absorbs 50% of world coffee exports and about one-third of cocoa exports. It is also the largest market for rubber and cane sugar and one of the largest for petroleum, tea, and vegetable oils and seeds.

The tariff

Average tariff levels of the USA on various items are given in Table 40 earlier in this chapter[1] where they are compared with corresponding tariff levels in the EEC and the UK. The US tariffs vary the most widely of the three, with a slightly higher proportion of zero or low duties, but also with more very high duties. Similarly to those of the EEC and the UK, the tariff tends to be lowest for raw materials and to rise with the degree of processing, thus favouring the import of raw materials. The average tariff level of the USA on non-agricultural products has been estimated[2] at 17·8%, as compared with 18·4%[3] for the UK and 11·7% for the EEC.

For raw materials and energy products, the most common single-duty level is zero. Many primary commodities of interest to the LDCs enter the USA free. These include coffee, cocoa, tea, rubber, jute, copra, palm oil and kernels, and tin ore.

The average US tariff in manufactured goods of export interest to LDCs has been estimated to be 11·6%. This is approximately level with that of the corresponding EEC tariff, estimated at 11·9% and lower than the UK Full tariff of 15·5%.[4]

Quantitative restrictions

Under an unconditional GATT waiver of 1955, the USA imposes quotas on wheat, cotton, groundnuts, and certain types of dairy products. Quotas are also imposed on petroleum. Those on lead and zinc ended in 1965. Under the Long Term Agreement on Cotton Textiles, bilateral agreements have been reached by which individual low-cost supplying countries 'voluntarily' have agreed to restrict their exports to the USA.[5]

Agricultural price support

Several agricultural commodities are produced in the USA which are also produced in the LDCs, e.g. certain vegetable oils, cotton, and tobacco. The USA pursues a policy of fixing support prices and maintaining them by government owned buffer stock purchases.[6]

As an example of such a policy see the notes on cotton in Chapter 3.[7]

Preferential policies

Since the general policy of the USA is one of non-discrimination, examples of preferential access are isolated. The only current example of a country being granted such access is the Philippines, which is granted preferential treatment on tobacco, sugar, and certain types of mahogany.

1. See p. 109.
2. Estimated before the Kennedy Round.
3. UK Full rate.
4. See Table 31.
5. The first agreement was made with Hong Kong. It has now been extended to cover most low-cost textile exporting countries.
6. These price supports are often supplemented by tariff duties or quantitative restrictions.
7. P. 55.

Preferential treatment however *is* given to sugar imports. The USA produces about one-half of what is needed for domestic consumption of beet and cane sugar. The balance, which is almost all cane sugar, is imported. Five domestic sugar producing areas are assigned basic quotas of approximately 6m short tons each. Quotas for some 30 'foreign' countries are established on the basis of fixed percentages of the requirements remaining after the quotas for the domestic area, the Philippines, Ireland, and the Bahama Islands have been established.[1] Since the Cuban quota is suspended, its quota of approximately 1m short tons is divided amongst the 'foreign' countries[2] when total requirements do not exceed 10m short tons. When requirements *do* exceed 10m tons the remainder is apportioned only to those countries which are members of the Organisation of American States (OAS) in proportion to their basic quotas. These are temporary quotas.

In December 1965 it was announced that production of domestic sugar cane and beet would be restricted. Producers are not required to comply with their assigned proportionate shares. It is, however, one of the conditions which must be met if producers wish to qualify for direct payments.[3] Under the US Sugar Act foreign quota holders receive the equivalent of the US domestic price.

Table 44 United States Sugar Quotas[1]

(thousand short tons)

	1962 Act	1965 Act	1965 Final Quotas	1966 Quotas
Total	9,700	9,700	9,912	9,800
Total Domestic	5,810	6,390	6,417	6,390
Domestic beet	2,650	3,025	3,025	3,025
Mainland cane	895	1,100	1,100	1,100
Hawaii	1,110	1,110	1,137	1,110
Puerto Rico	1,140	1,140	1,140	1,140
Virgin Islands	15	15	15	15
Philippine Republic	1,050	1,050	1,073	1,061
Other foreign countries	2,840	2,260	2,422	2,349
of which:	%	%		
Cuba	*57·77*	*50·00*	—	—
Mexico	*6·71*	*7·73*	418	362
Dominican Republic	*6·71*	*7·56*	413	354
Peru	*6·71*	*6·03*	258	283
Brazil	*6·37*	*7·56*	237	354
British West Indies	*3·19*	*3·02*	131	142
Other Western Hemisphere	*7·77*	*8·26*	378	406
Australia	*1·41*	*3·60*	200	169
China (Taiwan)	*1·24*	*1·50*	72	70
India	*0·71*	*1·44*	104	68
Other countries	*1·41*	*2·98*	211	141

Note: [1]Statutory quotas at 9·7m short ton requirements level.
Source: FAO *Commodity Review 1966.*

1. Ireland has a fixed quota and the quota for the Bahamas, which currently produce no sugar, will come into operation for 1968.
2. Other than the Philippines, Ireland, and the Bahamas.
3. These constitute a considerable part of sugar producers' income.

7 The General Agreement on Tariffs and Trade[1]

The Institution

History

The General Agreement on Tariffs and Trade (the GATT)[2] is a multilateral trade treaty concerned with the conduct, promotion, and regulation of international trade. It has been operating since January 1948 and has been amended substantially since then.

The origins of the GATT are bound up with the abortive post-war negotiations for an International Trade Organisation (ITO). The ITO was to have been part of the trinity of UN specialised agencies set up to restore economic order to the post-war world, the other two being the IMF and the IBRD. The ITO Charter was negotiated by a Preparatory Committee appointed in 1946 by the Economic and Social Council of the UN and it was adopted at the UN Conference on Trade and Employment in Havana, in 1948. However, the drafters of the 'Havana Charter' failed in their attempt to reconcile the demands of world free trade with those of national full employment. For this and other reasons, the Charter was not acceptable to the US Congress. When ratification was refused by the USA in 1950, the attempt to establish the ITO was abandoned.[3]

However, while the Preparatory Committee was drafting the ITO Charter, its member governments decided to hold a multilateral tariff negotiating conference at Geneva in 1947. Besides agreeing on certain tariff reductions, this conference agreed upon a multilateral trade treaty incorporating in advance the commercial policy clauses of the Havana Charter. This treaty was called the General Agreement on Tariffs and Trade (GATT).

The GATT was intended to be only an interim measure, pending the formation of the ITO. When the ITO failed to appear, the GATT emerged as the only international instrument for achieving multilateral and free trade. Since the original treaty provided for further meetings between signatories, the GATT became *de facto* a permanent organisation, keeping alive some of the liberal principles of the 'Havana Charter'.

Its permanence was enhanced by the acquisition of a permanent secretariat. Originally, the GATT was administered by the Interim

1. This description of the GATT owes much to Gerard Curzon's analysis in his *Multilateral Commercial Diplomacy*, Michael Joseph, London, 1965.
2. The term 'the GATT' is used to refer both to the actual text of the Agreement and to the organisation set up under it.
3. Ratification of the Charter had to be effected by countries accounting for 80% of world trade. The USA accounted for 20% at the time.

Committee for the ITO (ICITO), which was set up by the UN after the Havana Conference. With the failure of the ITO, the ICITO Secretariat was assigned to the GATT. ICITO remains in existence *de jure* as a UN body and is still the formal employer of the GATT Secretariat. Thus, though the GATT treaty has a life of its own, the head of the GATT Secretariat, in his capacity as head of ICITO, is broadly on a par with the heads of the UN specialised agencies.

Membership

The number of signatories of the GATT (known as contracting parties[1]) has risen from the original 23 to the current 76. A further 11 countries participate in the work of the GATT in various ways, without being fully committed contracting parties. A full list of contracting parties and other participants is given in Table 45. Certain non-member LDCs are invited to attend GATT sessions as observers.

The present contracting parties include all the developed countries, 47 LDCs,[2] Poland, and Czechoslovakia (which was a 'founder member'). The LDC voting strength is equal to the two-thirds majority required to amend certain provisions of the GATT.

Most Commonwealth and ex-French LDCs are contracting parties and this is reflected in the fact that most African LDCs are contracting parties. The balance between members and non-members in Latin America is even, while in Asia GATT members are in a minority.

Any country may join the GATT if its admission is acceptable to two-thirds of the existing contracting parties. Since a new contracting party benefits automatically from all the advantages flowing from previous negotiations between GATT members, it is expected to offer some concessions of its own as an 'entrance fee'. This 'fee' is now deliberately kept low to encourage new members from among the LDCs. Pending negotiation of accession, countries may accede provisionally to the GATT countries to whom the GATT has been applied when they were dependencies of contracting parties may without negotiation elect to join the GATT on independence or soon after. Most newly independent LDCs have taken this option. A few ex-dependencies, wishing to raise their tariffs after independence, have been allowed to continue to participate in the GATT *de facto* while deciding whether or not to negotiate for accession.

Any contracting party may withdraw from the GATT after giving due notice. The remaining contracting parties have the right to retract concessions granted to the departing country while it is still a member. Only four countries have withdrawn from the GATT.[3]

It is possible for a contracting party to choose unilaterally not to 'recognise' another contracting party.[4] This option is available when either

1. When acting collectively under the GATT, the contracting parties are referred to as 'Contracting Parties' (with capital letters).
2. As defined in Appendix A (Chapter 1).
3. Taiwan, Syria, Lebanon, and Liberia.
4. Under Article XXXV.

Table 45 GATT Membership (August 1967)

Contracting Parties to the GATT (76)

*†Argentina	*Ghana	*Niger
Australia	Greece	*Nigeria
Austria	*Guyana	Norway
*Barbados	*Haiti	*Pakistan
Belgium	†Iceland	*Peru
*Brazil	*India	†Poland
*Burma	*Indonesia	Portugal
*Burundi	†Ireland	*Rhodesia
*Cameroon	*Israel	*Rwanda
Canada	Italy	*Senegal
*Central African Rep.	*Ivory Coast	*Sierra Leone
*Ceylon	*Jamaica	South Africa
*Chad	Japan	Spain
*Chile	*Kenya	Sweden
*Congo (Brazzaville)	*Korea (S.)	Switzerland
*Cuba	*Kuwait	*Tanzania
*Cyprus	Luxembourg	*Togo
Czechoslovakia	*Madagascar	*Trinidad and Tobago
*Dahomey	*Malawi	*Turkey
Denmark	*Malaysia	*Uganda
*Dominican Republic	*Malta	United Kingdom
Finland	*Mauretania	United States of America
France	Netherlands	*Upper Volta
*Gabon	New Zealand	*Uruguay
*Gambia	*Nicaragua	Yugoslavia
Germany (Fed. Rep.)		

Countries which have acceded provisionally (2)

*Tunisia

*United Arab Republic

Countries which participate in the work of the Contracting Parties under special arrangements (1)

*Cambodia

Countries to whose territories the GATT has been applied and which now, as independent States, maintain a *de facto* application of the GATT pending final decisions as to their future commercial policy (8)

*Algeria	*Lesotho	*Singapore
*Botswana	*Maldive Islands	*Zambia
*Congo (Kinshasa)	*Mali	

(N.B. The GATT is applied to dependencies of Contracting Parties.)

Note: Countries marked * are LDCs as defined in Appendix A (Chapter 1). The four countries marked † were accepted for membership in 1967 and were expected to accede in that year.

country first joins the GATT. This loophole has been used by many countries to enable them to continue to discriminate against Japanese goods after Japan joined the GATT.

Machinery

As an international treaty, the GATT manifests itself only through its Contracting Parties, acting collectively. The Contracting Parties lay down their own rules of procedure. All important decisions are taken in their Sessions, usually held annually. In between Sessions, they work through the GATT Council, which supervises the work of various committees, working groups, and panels of experts. A number of these subsidiary bodies were set up to deal with the Kennedy Round of trade negotiations, while another group is devoted to the special problems of LDCs.

Each Contracting Party has one vote. A unanimous vote is obligatory for amendments to the entrenched articles of the GATT. These are Article I, which contains the most-favoured-nation clause, Article II, which consolidates all tariff concessions negotiated by members, and Article XXX, which prescribes the procedure for amendments. A two-thirds majority is needed for amendments to all other articles and for the admission of new members. Dissenters in such cases are not required to accept the majority decision. All other decisions are by simple majority vote, again with the option of non-compliance by dissenters. In practice, a simple majority vote is not often taken as great emphasis is placed on the processes of conciliation and consensus. The Director-General of the GATT Secretariat plays an important part in these processes.

Not all parts of the Agreement are fully binding on the contracting parties at present. Its articles are grouped in four parts and Part II need not be applied when it is inconsistent with mandatory domestic legislation in force in a member country on the date of its accession. Part II (Articles III to XXIII) includes articles on the use of quantitative restrictions and subsidies, and several technical articles on customs formalities and trading regulations. Part II will become fully binding only when the countries accounting for 85% of world trade bring the GATT into force definitively. At present, the GATT is only provisionally effective *de jure*.[1]

In addition, any contracting party may be granted a waiver from a particular obligation under the GATT by a two-thirds majority vote. Most waivers are granted for a limited period and are subject to GATT supervision. One major unconditional waiver was granted to the USA in 1955 enabling it to maintain its policies of agricultural protection. Other waivers include, for example, those to Italy for preferential treatment of Libyan and Somali products, to several LDCs for import duty increases, and most recently to Australia for preferential tariff quotas for LDCs.[2]

Although the signatories of the GATT bind themselves to accept certain contractual obligations, there is no machinery within the GATT

1. However, it is effective *de facto* apart from this exception in the case of Part II.
2. Exceptions are also allowed freely in cases where the *bona fide* requirements of public health, morals, security, rationing policies, etc. appear to give rise to difficulties in the application of the GATT.

for the enforcement of these obligations. In the case of a contracting party feeling that it is being deprived of its rightful benefits under the GATT, there are provisions for consultation and negotiation between the parties concerned. If these are unsuccessful or inadequate, the Contracting Parties, acting jointly, may be asked for a ruling. Most disputes so far have ended with the acceptance of any such ruling. However, in the event of the offending party refusing to comply, the Contracting Parties may authorise the aggrieved party to retaliate by withdrawing concessions from the offending party. The latter may accept retaliation or withdraw completely from the GATT. This extreme step has never been taken on these grounds.

The GATT has been likened to a code of law but this is not a very accurate description. The Contracting Parties sit as judges in their own cause and are not necessarily bound by precedent. The GATT is more a code of behaviour, rather similar to the rules of a club. The interpretation of the rules is a private matter for members and the strictness of their application tends to be influenced by the relative importance of the members involved. The principal incentive to abide by the rules is their mutual benefit to all members and any discipline needed is achieved largely by moral suasion. Unlike most clubs, however, the GATT contains no provision for the expulsion of members, only for the imposition of sanctions. There have been infringements of this code but they have been outnumbered by instances of its successful application.

The Principal Rules of the GATT

The objectives of the GATT, as set out in the Preamble, are that international trade relations should be conducted with a view to 'ensuring full employment and a large and steadily growing volume of real income and effective demand, developing the full use of the resources of the world and expanding the production and exchange of goods'. In order to achieve these objectives, the signatories propose to enter into 'reciprocal and mutually advantageous arrangements directed to the substantial reduction of tariff and other barriers to trade and to the elimination of discriminatory treatment in international commerce'. This broad proposal is then spelled out in the form of a series of Articles, now numbering I to XXXVIII.

It is important to remember that the rules laid down in these articles and incorporated in the general proposal quoted above are not ends in themselves and are not immutable. The GATT rules reflect the desire of the original signatories to avoid a return to the pre-war confusion of discriminatory and bilateral trade policies. They need not necessarily be the best means for coping with other problems, such as those of the expansion of LDC trade. However, the rules have worked fairly well in providing a multilateral framework for the post-war boom in world trade between developed countries, so that a convincing case against the *status quo* would have to be made out before substantial changes would be considered.

The main GATT rules provide for the application of the most-favoured-nation clause, the use of tariffs as the principal instrument of protection, the reduction of tariffs by bargaining, and the prohibition of quantitative restrictions and other non-tariff barriers to trade.

The most-favoured-nation clause

Article I of the GATT contains the general most-favoured-nation (m-f-n) clause, which is the keystone of the GATT. This clause guarantees, in principle, that a product of a GATT member shall not be any worse off than the similar product of any other country with respect to the conditions of access granted to this product on entry into the market of another GATT member. The most important implication of this clause is that any reduction in the import duties of a GATT member must be applied 'immediately and unconditionally' to imports from all other GATT members. In other words, the clause lays down the rule of non-discrimination in trade policies.[1]

The concept of non-discrimination is the subject of dispute. From the point of view of the efficient allocation of world resources (one of the objectives of the GATT), it is held that complete freedom of trade is the best possible situation. However, the GATT itself presupposes the continued existence of some protective tariffs.[2] Such protection introduces an element of discrimination between domestic and foreign producers. In such a case, there is no hard and fast economic argument to prove that an intensification of discrimination between different groups of foreigners will in all cases be less efficient than a policy of treating all foreigners equally. It is even possible to prove the contrary in some cases.

However, the inclusion of the m-f-n clause as an entrenched provision of the GATT is based mainly on the pragmatic assumption (which has not been disproved) that trade is more likely to expand in an orderly, multilateral framework and that such a framework is best achieved through the application of the rule of non-discrimination in international trade.

One problem with the m-f-n clause as it stands is that it does not prevent the practice of discimination against individual products, as long as all GATT members supplying such products are subject to the same treatment. This practice may be turned into one of discrimination against particular countries, by its application to products in which those countries have a special interest.

Exceptions to the m-f-n clause: preferences, customs unions, and free trade areas

Article I itself allows for the continuation of systems of tariff preferences

1. The clause applies equally to duties, etc. on exports.
2. Its Preamble calls for their 'substantial reduction'.

in force when the GATT was signed. Since tariff preferences discriminate against non-preferred suppliers, they contravene the m-f-n clause. However, the GATT allowed the preference systems operating within the British Empire and the French Union (plus a few others) to be retained. This was a concession by the USA, which was strongly opposed to these preferences.[1] As a counter-concession, countries granting preferences had to agree not to increase the margins of preference in force at the time. This has meant, in effect, that these margins have been reduced as m-f-n tariffs have been lowered.

The terms of this exception to Article I forbid the creation of new preferences. Since Article I can only be amended by a unanimous vote, such a vote would probably be needed to allow the institution of a system of generalised preferences in favour of LDCs.[2]

The second main exception to the m-f-n clause is the provision for customs unions and free trade areas, which conform to certain conditions. These conditions are:

(a) that customs unions/free trade areas should provide for the elimination of import duties and other restrictions on '*substantially all trade*' between the constituent countries;[3]

(b) that a definite timetable for such elimination should be laid down in advance;

(c) in the case of a customs union, that tariffs and other barriers applied to trade with outside countries should be substantially uniform;

(d) that tariffs and other barriers applied to trade with outside countries should not be higher or more restrictive than those applicable before the formation of the customs union/free trade area;[4]

(e) that the Contracting Parties should be satisfied that these requirements have been met.

Customs unions and free trade areas are of course extreme cases of discriminatory preferential arrangements. However, according to the GATT's 'rule of thumb', such arrangements for regional free trade are likely to be beneficial on balance to outside countries, whereas partial preferential arrangements are not.[5]

It is interesting that although the provision for customs unions and free trade areas is an important exception to the m-f-n rule, the relevant article (Article XXIV) is not entrenched. Waivers of the requirements of the article may be granted on a two-thirds majority vote, provided that the 'sense' of the article is preserved. This loophole has enabled the Contracting Parties to sanction the formation of LAFTA, which does not satisfy GATT requirements *prima facie*.

Both EFTA (a free trade area) and the EEC (a customs union) seek to

1. Although the USA itself granted preferences to Puerto Rico and the Philippines.
2. Although the waiver procedure, requiring a two-thirds vote, might be feasible in this case. Cf. the GATT waiver to Australia.
3. This is not the same as freeing substantially all *products* traded.
4. In the case of a free trade area, this condition applies to the tariffs, etc. of each individual constituent.
5. Though the GATT did grant a waiver to the USA and Canada to establish a free trade agreement n automotive products only.

conform to Article XXIV.[1] However, this article and the general m-f-n clause received a severe battering in the course of the 1957–9 dispute over the EEC's Association arrangements. The EEC claimed that these would lead to a free trade area between the EEC and the associates, in the sense of Article XXIV. The opposing view, noting the imbalance in the initial concessions between the two sides and the vagueness of the timing, held that the arrangements did not comply with Article XXIV and were, in fact, new preferences at the expense of non-associated LDCs, in contravention of the m-f-n clause. This opposition was led by the UK, acting in the Commonwealth interest and supported by many LDCs.

The proposed Association arrangements appeared to threaten both the letter and the spirit of the GATT. However, the EEC had the valuable support of the USA while the UK ceased its opposition when it came to make its first application for entry into the EEC. The opposition lobby then collapsed, the EEC agreed to listen to complaints by non-associated countries should their interests be injured in practice, and the GATT survived with its m-f-n clause somewhat tarnished.

This incident is quoted as an example of the flexibility of the GATT, even on an issue as important as the m-f-n clause, which has enabled it to survive many differences of opinion.

The use of tariffs

The GATT freely permits the protection of domestic production through customs tariffs. It does not specifically encourage tariff protection but it forbids or limits the use of all other protective measures.

In order to prevent the disturbance of orderly trade flows by frequent changes in import duties, the GATT contains an entrenched clause which stabilises member countries' tariffs. Under this clause (Article II), all concessions granted by Contracting Parties, as a result of negotiations under the GATT, must be entered in a 'schedule of concessions'. A concession may take the form of a reduction in a rate of duty or an agreement to bind (i.e. not to raise) an existing duty rate. Once it is scheduled, a concession may not be withdrawn except in certain specified circumstances. The process of scheduling limits opportunities to raise tariffs, while leaving the way open for their reduction. It builds into the GATT a bias towards lower tariffs.

The permitted exceptions[2] to the scheduling procedure could, in theory, be used very freely. In the first place, a contracting party may raise import duties on a m-f-n basis to cope with an unforeseen increase in imports of a certain product, which threatens injury to domestic producers.[3] Secondly, all schedules are open for renegotiation at three-yearly intervals. No specific reason is required and action may be taken unilaterally. Abuse of the provision for unilateral action could trigger off

1. The Contracting Parties have not passed judgement on either but tolerate their existence.
2. In addition to the normal waiver loophole.
3. Or to producers in a 'traditional' supplying country.

a chain reaction of retaliatory tariff increases, which would wipe out the negotiated benefits of GATT membership. No member has yet opted for this self-defeating course but several re-negotiations (notably of LDC tariffs) have been accepted.

Subsidies and dumping

The GATT recognises the widespread use of subsidies, as an alternative to tariffs, and attempts to limit their use by keeping them under supervision and by making them a subject for negotiation between interested parties. The remission of domestic taxes on exported goods is not classed as a subsidy; nor are domestic farm support schemes which are not specifically intended to stimulate exports.[1] However, deliberate export subsidies on primary products are frowned upon and the relevant clause states that they should not lead to a country gaining a 'more than equitable share' of trade in the subsidised product. Export subsidies on non-primary (i.e. manufactured) products are not permitted when they lead to exports at prices below those ruling domestically.

The practice of selling exports at prices lower than those ruling in the domestic market of the exporting country is known as 'dumping' and is condemned by the GATT.[2] When dumping threatens injury to actual or potential producers in an importing country,[3] the GATT permits retaliatory measures to be taken against the dumped products. This constitutes a special exception to the m-f-n clause. If dumping is the result of a subsidy, the importing country can impose a 'countervailing duty' on the dumped goods to offset the degree of subsidy. Even if dumping results only from unsubsidised hard selling, a similar offsetting 'anti-dumping duty' may be imposed.

Tariff bargaining

The commitment of the GATT contracting parties to tariff reduction is made in the Preamble and repeated in Article XXVIII (*bis*) which calls for multilateral negotiations aiming at 'the substantial reduction of the general level of tariffs' and especially the reduction of excessively high duty rates.[4] The relaxation of such non-tariff barriers as continue to exist is understood to be a complementary aim of multilateral negotiations and was one of the declared aims of the Kennedy Round.

So far six main tariff negotiating conferences have been held under the auspices of the GATT. These took place in 1947 (Geneva), 1949 (Annecy), 1951 (Torquay), 1956 (Geneva), 1960/1 (Geneva), and 1964–7 (Geneva). The 1960/1 conference, which was preceded by the negotiation of the EEC's external tariff, was known as the 'Dillon Round', while the latest

1. Though they must inevitably discourage imports (see Appendix C, Chapter 5).
2. If there is no comparable domestic price, prices in other export markets or production costs are taken into consideration. 'Dumping' is very hard to prove in the case of goods exported by State trading countries, where the concept of a 'normal' price is meaningless.
3. Or in a traditional supplying country.
4. Given that some countries' tariffs are much higher than others, the GATT accepts that the 'binding' of a low or zero tariff is to be treated as a concession equivalent to the reduction of a very high one.

negotiations were called the 'Kennedy Round'[1] and were the widest-ranging ever.

The bargaining techniques in all conferences *prior* to the Kennedy Round were basically a series of simultaneous bilateral negotiations on a product-by-product basis. The principal supplier of a particular product would ask its trading partners for a reduction in their tariffs on that product. The latter might produce counter-offers and negotiations would continue until a conclusion was (or was not) reached. The same procedure would be repeated for each product being negotiated. Each country retained the absolute right to refuse to negotiate on any product.[2]

However, the multilateral framework provided by the GATT for these product-by-product bargains has been used to create a 'snowballing' effect. Each country receiving a request for a concession on a product would seek compensation by tabling a request on another product. If it was not itself the principal supplier of this product, it could join up with other suppliers to form a principal supplying group. Thus, the combination of multilateralism with the bargaining objective of reciprocity in concessions has led to a far greater number of products being negotiated under the GATT system than would otherwise have been the case. The GATT has also made it possible to achieve 'triangular' tariff bargains (i.e. a series of three bilateral bargains forming a chain: A concedes to B, B to C, and C to A). Finally the multilateral nature of the negotiations has offered greater scope for participation by minor trading countries[3] than did strictly bilateral bargaining.

The Kennedy Round negotiations saw the introduction of a new technique, that of linear tariff bargaining, which is substantially different in principle from product-by-product bargaining. Linear bargaining means that negotiations start off on the hypothesis of a certain percentage cut in each country's tariffs on *all* products. Exceptions to this across-the-board reduction have then to be negotiated between interested parties. In other words, all tariff items are eligible for a given rate of reduction unless otherwise agreed, in contrast to the product-by-product technique, under which all tariff items remain untouched except those which it is agreed to negotiate.

Linear bargaining is the multilateral technique *par excellence*, since it breaks away from the bilateral concept of the 'principal supplier'. Paradoxically, however, the Kennedy Round, which introduced linear bargaining to the GATT, was inspired by the bilateralist US Trade Expansion Act (1962). This Act authorised the US Administration to negotiate the complete elimination of tariffs on those items in which the USA and the EEC accounted for 80% or more of 'free world' trade. This was known as the 'dominant supplier' authority and obviously reflected a bilateral

1. After US Under-Secretary of State for Economic Affairs Douglas Dillon and President John F. Kennedy.
2. The USA usually arrives at the negotiations with its hands tied by a Congressional Act fixing the *maximum* level of US concessions. However, since other countries usually start with high requests and offers and bargain downwards, the US negotiators are not unduly hindered.
3. E.g. most LDCs.

policy outlook. However, the 80% criterion was set on the assumption that the EEC would include Britain and Britain's eventual exclusion means that only two groups of products—vegetable oils and aircraft —qualified for total liberalisation. The USA therefore fell back on its residual authority under the Act to negotiate 50% linear reductions on any tariff item and this authority formed the basis for the actual Kennedy Round negotiations. Even so these negotiating powers were much wider than any previously granted to a US Administration.

The key to the success of the linear technique is the avoidance of claims for exceptions. Such claims have to be negotiated bilaterally and linear bargaining can easily revert to bilateralism if an excessive number of exceptions are claimed. Exceptions were, in fact, claimed by most negotiators in the Kennedy Round, notably by the EEC, and these claims prevented the negotiations from achieving the full 50% tariff cut which was the original working hypothesis.[1]

It is not certain whether another linear tariff bargaining round will ever be held. Despite its theoretical attractions, multilateral linear bargaining is a process of immense technical complexity, demanding highly specialised negotiators. Apart from this, the linear method is best suited for negotiations between countries with broadly similar tariff levels and trading interests, i.e., roughly speaking, the major industrial countries. The method is not advantageous for countries with a narrow range of exports (e.g. many LDCs), since they are required to open their import tariff to across-the-board reductions in return for concessions benefiting only their limited export range. Because of this latter difficulty, the LDCs were allowed to participate in the Kennedy Round on a non-reciprocal basis. The developed primary producing countries[2] also faced this problem and they opted out of the linear bargaining and chose to negotiate on a product-by-product basis.

Reciprocity

According to most commentators, the second of the basic principles of the GATT, after non-discrimination, is that of reciprocity in tariff concessions. The word 'reciprocal' does, in fact, occur in the text of the Agreement wherever tariff negotiations are mentioned. However, it is difficult to regard these two principles as being of the same rank.

The 'most-favoured-nation' clause itself denies the *right* to reciprocity. It states that any tariff reduction once it has been made must be extended 'immediately and unconditionally' to other GATT members. This means that there are no *prima facie* grounds for withholding a concession from another country on the pretext that it has not reciprocated the concession. To put it another way, the GATT does not stand in the way of unilateral

1. The main grounds for exceptions were the protection of sensitive industries (e.g. cotton textiles) and of preferential suppliers and the existence of significant 'tariff disparities' between one country and another (in which case the low tariff country claims the right to make a smaller percentage cut, so as to harmonise tariff levels). The EEC made over 1,000 disparity claims against the USA.
2. Canada, Australia, New Zealand, South Africa.

tariff reductions,[1] though it does not force them upon contracting parties.

However, the GATT was drawn up in what was (and to a large extent still is) a protectionist world. In theory a 'free trader' weighs the benefits of multilateral tariff reductions in terms of the availability of cheap imports and their effect of increasing domestic efficiency through competition. A 'protectionist' thinks in terms of access to markets; to him, a tariff reduction represents a concession to other countries interested in exporting goods to his market and he would seek compensation in the form of reductions in other countries' tariffs. Thus, the 'free trader' would tend to take the initiative in offering tariff reductions, while the 'protectionist' would follow such an initiative and then only if the incentive (in terms of increased export opportunities) were sufficient. The 'protectionist' would not move unless prodded and, as tariff levels in general become lower and lower, there would be ever less of an incentive for him to disturb the *status quo*.

Rather paradoxically, but typically pragmatically, the GATT aims to achieve free trade by a protectionist path. Its objective is a reduction in barriers to trade, yet it treats reductions and also the m-f-n rule as 'concessions' and as such to be reciprocated, in the normal course of mutual bargaining. Really, reciprocity is not a principle at all but a natural bargaining objective, between two roughly equal parties. Given the existence of protectionist attitudes to tariff reductions, the GATT's insistence on reciprocity should be seen as a practical means of spreading the scope of multilateral tariff bargaining as widely as possible.

In practice, the rule of reciprocity has not been strictly applied in GATT negotiations. Strict reciprocity in bargaining means that the general level of concessions is determined by the level of the lowest final offer. If it had been enforced in GATT negotiations, involving large and small countries, rich and poor, it would have stifled the progress of tariff reductions since the inability of the poorer countries to offer high concessions would have limited the scale of concessions offered by the richer countries. What has happened, in fact, is that bargaining reciprocity has been insisted upon only between countries with a major trading interest in negotiations. Countries with a marginal interest in negotiations (such as LDCs in most cases) have been permitted to enjoy the 'windfall' gains resulting from negotiated concessions automatically extended to them under the m-f-n rule.

Quantitative restrictions

Quantitative restrictions on trade, such as import quotas and import licensing, are forbidden in principle by the GATT, except when they are necessary to reinforce domestic output restriction measures in agriculture and fisheries[2] or to apply standards and other technical regulations. The former constitutes, in fact, a very broad exception.

1. Cf. Germany's unilateral tariff reductions in 1956/7, which halved its tariffs.
2. Including measures introduced to implement price guarantees, as in the USA.

When the GATT was drawn up, only the USA and Canada among the developed countries pursued a trade policy which was relatively free from quantitative restrictions on imports. This meant that, while reductions in US tariffs represented real gains to European exporters, the potential benefits to US exporters of reductions in European tariffs were invalidated by the application of quantitative restrictions by the European countries. So the USA ensured that a firm commitment to eliminate such restrictions was written into the GATT.

On the other hand, it was recognised that countries undergoing rapid economic development (or post-war reconstruction), such as those in Europe at the time, would be likely to experience balance of payments difficulties. The GATT, therefore, allowed the imposition of equitable quantitative restrictions by countries experiencing serious monetary reserve problems, subject to the usual consultative processes.

Initially, this meant that all GATT members other than the USA continued to apply restrictions. However, by 1960, when post-war stability had been restored in Europe and the major currencies had returned to gold/dollar convertibility, most developed countries had ceased to apply quantitative restrictions for balance of payments reasons. Such restrictions as are still maintained for balance of payments reasons are mainly utilised by LDCs, often in the context of IMF stabilisation programmes. Developed countries still applying them are: Yugoslavia, Finland, Iceland, New Zealand, Spain, and South Africa.

As balance of payments quantitative restrictions were dismantled, certain sensitive sectors of national economies were exposed to competition from imports and this led to most developed countries retaining restrictions on certain products for purely protective reasons. Most protective quantitative restrictions affected trade in temperate agricultural products or their tropical substitutes (e.g. cane sugar and tropical vegetable oils). In some cases, protective restrictions on agricultural products were sanctioned by the GATT either by the application of the above-mentioned exception to the general ban on quantitative restrictions or by granting conditional or unconditional waivers (notably the 1955 unconditional waiver to the USA[1]). The GATT took a harder line on quantitative restrictions affecting industrial products, which remain outlawed except for those discriminatory import quotas on 'low-cost' cotton textiles which were legitimised by the 1962 Long Term Arrangement on Cotton Textiles.[2]

Nevertheless, several 'residual restrictions' remain and those on manufactures are typically imposed on products of interest to LDCs, such as cotton, jute and coir manufactures, leather and leather goods, sports goods, and bicycles. In some cases, the protective restrictions apply to LDC products only.

All those developed countries which are not permitted balance of payments quantitative restrictions have managed to retain some protective

1. Quantitative restrictions applied by the USA under this waiver have been progressively reduced and now cover wheat, cotton, groundnuts, and some dairy products.
2. See Chapter 8.

restrictions, despite their 'illegality' under the GATT. In the field of manufactures, the country offending least from the LDC point of view is the USA, which only imposes 'voluntary' restrictions on cotton textiles from 'low-cost' sources.

8 The GATT and Development

The GATT is not primarily concerned with reducing the disparity in incomes which exists between the LDCs and the developed countries. The principal objective of the GATT is to reduce barriers to international trade. It is concerned with promoting economic development only in as much as it can be said that the reduction of trade barriers provides a stimulus to economic growth. Moreover, this implicit developmental role does not commit the GATT to seek to achieve any particular pattern of world income distribution.

The above takes what could be held to be too narrow a view of the role of the GATT in the development process, especially since the addition of Part IV of the GATT, on 'Trade and Development'. However, it is only fair that any judgement of the GATT's fulfilment of such a role should take into account the limitations imposed upon the GATT by the nature of its own terms of reference.

This chapter is about the role of the LDCs in the GATT and that of the GATT in the LDCs' external trade. Almost inevitably, the latter topic tends to be confused in public discussion with that of the contribution of the GATT to the development of LDCs, and this often leads to condemnatory judgements upon the GATT which, while not without substance, are based upon the attribution to the GATT of a role to which it does not aspire. This is not to say that the GATT is above criticism: rather that it should be judged against its own yardstick, viz. the achievement of freer trade. It is on this basis that this chapter attempts to assess the success of the GATT in bringing about the liberalisation of the export trade of LDCs.

One final point should be made in clarification of what is to follow. The GATT is no more than the sum of its members; it has no intrinsic power to act of its own volition. Thus, when one criticises the GATT for failing to achieve an objective, one is often criticising those of its signatories which stand in the way of its achievement. This is a very important distinction since many of the grievances expressed against the GATT arise not out of the Agreement itself but out of the ability and willingness of some of its signatories to evade their obligations under it.

The LDCs in the GATT

It has already been mentioned[1] that 47 of the contracting parties to the GATT are LDCs. In addition, 11 LDCs enjoy some status short of full

1. See Chapter 7.

membership. This leaves a balance of some 35 independent LDCs which have no formal connection with the GATT. In many of these cases, non-membership appears to be the deliberate choice of the LDCs concerned, presumably because they feel able to protect their trading interests adequately without assuming the obligations inherent in GATT membership.

LDCs in the GATT rank as full contracting parties with voting rights, privileges, and responsibilities equal to those of developed countries in the GATT. However, recognition of the special trade policy problems of LDCs has always been written into Article XVIII of the Agreement. This Article permits LDCs, in specific circumstances, to depart from the general rules of the GATT against the imposition of import quotas and the raising of tariffs when this is necessary in the interests of economic development. In other words, development policy is given precedence over GATT orthodoxy. Further recognition of the problems facing the trade of LDCs is now set out in the new Part IV of the GATT which entered into force in June 1966.

The GATT Programme of Work on LDCs' Trade Problems

Work in the GATT on the trade problems of LDCs has steadily expanded during the last ten years. Problems affecting expansion of the trade of LDCs are now under serious study, and some progress towards the reduction of barriers to exports of LDCs has been made in the recently concluded Kennedy Round of trade negotiations.

A significant step forward in the GATT's work on the problems of developing countries was made in 1958 with the publication by the Contracting Parties of the 'Haberler Report'[1] on *Trends in International Trade*, which made special reference to the need for expansion of the trade of LDCs. A GATT Ministerial Meeting in October 1958 considered the findings in this report and inaugurated a trade expansion programme under the guidance of three specialised committees. One of these committees, known as Committee III, was made responsible for recommending solutions to problems involved in expanding the export trade of LDCs. Subsequently this committee set up a special working group to consider the implications of removing barriers to trade in tropical products of primary interest to LDCs.

The GATT's work in examining obstacles to the trade of LDCs was given fresh impetus at the GATT Ministerial Meeting in May 1963, at which Ministers of most developed countries recommended that an Action Programme should be adopted for the removal of tariff and non-tariff barriers affecting LDC exports, and that consideration should

1. Written by Professors Campos, Haberler, Meade, and Tinbergen.

be given to the establishment of the legal and institutional framework needed to enable contracting parties to the GATT to discharge their responsibilities in this field. These recommendations led to the preparation of the new Part IV of the GATT, which provides a contractual and legal basis for commitments on individual and joint action to further the development of the economies of less developed contracting parties, through increased participation in international trade.

Part IV of the GATT

Part IV of the GATT legally came into effect on 27 June 1966, when it was accepted by the necessary two-thirds majority of the Contracting Parties to the GATT. Its provisions had previously been applied on a *de facto* basis by most developed countries since February 1965.

Three new Articles have thus been added to the text of the Agreement. Article XXXVI sets out the principles and objectives which should govern international trade policies in relation to LDCs, with reference to the need for improved market access for all LDC products, to price stabilisation for primary products, and to co-operation between the GATT and other international trade and aid agencies. Article XXXVII contains undertakings by developed and less developed contracting parties designed to further these objectives; in particular, undertakings by developed contracting parties to refrain from increasing barriers to imports o products of particular export interest to LDCs and to give high priority to the reduction of existing barriers to trade in such products. Article XXXVIII provides for various forms of joint action to promote, through trade, the development of less developed contracting parties. Article XXXVIII led to the establishment of the GATT International Trade Centre, in Geneva, which provides trade information, market research facilities, and technical assistance in training trade policy officials from LDCs.

The GATT Committee on Trade and Development

The Committee on Trade and Development was established by the GATT early in 1965 to supervise the implementation of the new Part IV of the GATT, and to take over the work of the GATT Committees previously concerned with the trade problems of LDCs (notably Committee III and the Action Committee set up in connection with the Action Programme approved in 1963).

The Committee has undertaken a number of studies in *ad hoc* working groups during 1965 and 1966, e.g. a review of import restrictions affecting exports from LDCs, possibilities for an expansion of trade (including an exchange of preferences) among LDCs, the question of further legal amendments to the text of the General Agreement, and the examination by means of trade and aid studies of the economic position of certain LDCs. Apart from this work in the Committee on Trade and Development, action by developed countries towards implementation of their undertaking in Part IV regarding the reduction and elimination of trade barriers on products of export interest to LDCs has consisted largely in participation in the Kennedy Round of trade negotiations.

The LDCs in the Kennedy Round

The GATT Ministerial Meeting in 1963, at which conclusions were reached regarding the future pattern of GATT work on the trade problems of LDCs, was also the starting point for the Kennedy Round of trade negotiations. Although these trade negotiations were designed primarily as a general measure for the liberalisation of world trade, it was recognised at the Ministerial Meeting that they would also provide a means to give effect to the work they had recommended on the removal of tariffs and non-tariff barriers to the expansion of LDC trade. One of the major objectives of the Kennedy Round has therefore been the reduction of barriers to exports from LDCs.

By a decision of GATT Ministers in 1963, now specifically written into Part IV of GATT, LDCs have not been expected to offer reciprocity in these trade negotiations; they have been expected to make a contribution to the objective of the trade negotiations, but only to an extent not inconsistent with their own development, financial, and trade needs.

Barriers to LDC Exports

Tariffs and the Kennedy Round

Despite this increase in activity within the GATT, there was little concrete action to improve export prospects for LDCs until the conclusion of the Kennedy Round, which was a major step in the direction of freer world trade. The main area of success of the Kennedy Round was in reducing tariff barriers on industrial products and raw materials. The agreed tariff cuts include substantial reductions on about 80% of the items listed by the LDCs participating in the Kennedy Round as being of special export interest to them.[1] However, the main impact of the Kennedy Round is likely to be on trade between developed countries, as was to be expected because of their preponderance in the negotiations, and the benefits accruing to LDCs have been stated[2] to be 'less impressive' by comparison. The full significance of the Kennedy Round for the LDCs has yet to be assessed but a very preliminary review is attempted in the last section of this chapter.

Points of conflict

In dealing principally with tariffs, the Kennedy Round leaves unresolved several of the major trade problems of the LDCs. These problems appear most intractable when conflicts arise between the interests of exporting

1. These cuts should have the incidental effect of reducing effective protection of value added. (See Chapter 4, p. 81 ff.)
2. By the Director-General of GATT.

LDCs and those of developed countries and it is at these points that the GATT has been found inadequate by the LDCs. In such cases, the machinery of the GATT has not been able to prevent the economically powerful developed countries from giving priority to their 'overriding national interests' (as seen by themselves) over the observance of the letter and the spirit of their contractual obligations under GATT.

The main current points of conflict all lie outside the sphere of tariff policy and therefore outside the GATT's main area of specialisation. These points of conflict are the policies of developed countries concerning support for temperate zone agriculture, taxation of tropical commodities, and quantitative restriction of 'low-cost' manufactured imports.

Agricultural support policies

Temperate zone agriculture (notably cereal, meat, and dairy production) is the sector of the international economy in which protection is most severe. The protective policies of the UK and the EEC have been described in previous chapters. These and other support policies have for the most part been accommodated by the GATT rules. In fact, GATT trade liberalisation has made little headway in this sector, and temperate agriculture remains the biggest lacuna in the record of the GATT.

Contrary to what is sometimes asserted, the protection of temperate zone agriculture is not a 'domestic' matter for the developed countries alone. Several LDCs export temperate produce, e.g. Argentina and Uruguay, which export meat and cereals, while the Maghreb countries export citrus fruit, olive oil, wine, and cereals. Many more export tropical commodities which compete with temperate ones, e.g. cane sugar and vegetable oils. In fact it is probably fair to state that it is the LDCs, together with the developed non-industrial countries, which suffer most on balance from the protection of temperate agriculture in developed countries as a whole.

Tropical commodities

Since tropical commodities are produced only in LDCs the question of protection in developed countries does not arise. However, several developed countries[1] raise taxes by way of revenue duties on tropical foodstuffs, notably beverages (viz. coffee, cocoa, tea). Such duties are often extremely high in relation to the import price of the commodity and might be expected to discourage consumption to the detriment of LDC producers.[2] Unfortunately for the latter, tropical products, being semi-luxury goods and not being produced in developed countries, are very convenient sources of revenue compared with other taxable commodities.

This is strictly speaking a question of domestic fiscal policy and as such does not fall *de jure* within the scope of the GATT. Revenue duties are

1. Excluding the UK since 1962.
2. There is an argument that high prices do not reduce consumption because of the inelasticity of demand for these commodities. However, it cannot be denied that producers would benefit if they could charge the high prices themselves.

not normally included in tariff negotiations.[1] However, problems caused by revenue duties are being studied in the GATT and attempts have been made, with limited success, to exert pressure through the GATT for a reduction of these duties on tropical products (e.g. the Action Programme and Part IV).

A second problem in the field of tropical commodities is that of preferential tariffs (notably those of the EEC) which create a vested interest in the maintenance of tariffs on the part of LDCs which benefit from preference. Some progress towards reducing tariffs on tropical commodities has been made in the Kennedy Round.

Access for manufactured products

The third main point of conflict arises from the case of industries in which international comparative advantage appears to have moved from the developed countries to certain LDCs. In any such case, it would be in the long-term interest of the developed countries, as well as the LDCs, if the LDCs were allowed to take over the industry in question and if the developed countries were to move into new, more productive areas of industrial specialisation.[2] However, developed countries have shown themselves to be generally reluctant to undergo the necessary process of adjustment, because of the problems involved in the transition. These transitional problems are at their most intransigent in the case of traditional, localised industries, where the redeployment of labour and capital, especially the former, can cause serious stresses and strains.

The resistance to redeployment in developed countries is essentially political, since, in terms of economics, there is everything to be said for it, despite the short-term costs. Mainly for political reasons, therefore, developed countries have sought to postpone this beneficial economic readjustment by restricting access to their markets of imports competing with their declining industries, especially when the imports originate in 'low-cost' sources of supply (e.g. the LDCs).

So far this conflict of interest has arisen in only a few sectors of industry —notably the textile industries—and has affected only a few LDCs to a significant degree.[3] However, the present situation must be regarded as the tip of the iceberg. LDCs must have a comparative advantage in more than just the textile industries and, as they realise this potential in the future through increased domestic and foreign investment, the area of conflict will inevitably spread. Ultimately, the development process must lead to the dismantling of international economic divisions and to the sharing out of world industry. If the developed countries continue to insist on retaining inefficient industries they will be seriously retarding this process.

1. Though the Kennedy Round negotiations extended beyond tariff barriers.
2. This argument is spelled out in Chapter 1.
3. Japan of course has been the main sufferer.

'Market disruption' and the Long Term Arrangement on Cotton Textiles

The above argument is based on the concept of free trade on which the GATT is founded and in fact the GATT, by forbidding quantitative restrictions in principle, has done much to keep the imposition of such restriction under some sort of control. However, as in the case of agriculture, the Agreement has not been able fully to overcome the argument of 'national interest', when deployed by the developed countries in concert. In fact, the GATT has been used by these countries to lend support to the concept of 'market disruption' by low-cost imports, which is taken to provide legal grounds for retaining or imposing quantitative restrictions.

'Market disruption' was invoked by the developed countries to deal with the problems raised for their domestic cotton textile industries by low-cost imports from the LDCs, Japan, and Southern Europe. This led to the negotiation and establishment, in 1962, of the Long Term Arrangement on Cotton Textiles, which was put into force for a five-year period.[1]

The parties to this Arrangement include all the major industrial members of the GATT, developed low-cost producers such as Portugal, Spain, Turkey, and Japan, and the less developed contracting parties with a major interest in trade in cotton textiles, viz. Colombia, Hong Kong, India, Israel, Jamaica, South Korea, Mexico, Pakistan, Taiwan, and the UAR.

The Arrangement provides that importing countries which apply restrictions inconsistently with the GATT on cotton textile imports from other signatories should relax these restrictions by a specified minimum percentage over the period of the Arrangement. In particular, the EEC cotton textile quotas must be augmented by at least 88% in the five years.[2]

In addition, the Arrangement allows any importing country to impose new restrictions, more or less unilaterally, if it decides that imports of unrestricted categories of cotton goods give rise to 'market disruption' as defined by the GATT.[3] Restrictions thus imposed are to be related to the level of the previous year's imports and relaxed by 5% p.a. Canada and the UK have exempted themselves from the commitment to increase quotas, on the grounds that their low-cost imports are already substantial.

Since the Long Term Arrangement came into effect, several developed countries have imposed quotas under its provisions. However, the quotas established by the UK in 1966 were not consistent with the Arrangement. The Arrangement was due to expire on 30 September 1967, but has been extended for a further three years.

1. A Short Term Arrangement had been effective in the previous year.
2. See Chapter 6, p. 110.
3. The definition includes a sharp and substantial increase, or *potential* increase in imports, at prices below those in the *importing* country, which causes or threatens to cause damage to domestic producers. The reference to prices in the importing, rather than the exporting, country is the distinction between 'market disruption' and 'dumping'.

If the *fait accompli* of cotton textile quotas is accepted, the arrangement can be said to be beneficial to LDCs in that it subjects these quotas to a process of consultation and provides for their eventual elimination. On the other hand, by legitimising the quotas, the Arrangement represents a departure from the principles of the GATT to the detriment of its less developed members.

The GATT and UNCTAD

The above analysis of the remaining barriers to LDC exports suggests that the main impediments to their removal lie in the internal policies of the developed countries—whether fiscal policies or policies for particular regions or sectors of their economies. Concentration on these residual barriers should not be allowed to obscure the overall benefits provided by the GATT to the LDCs, viz. the maintenance of order in international trade relations and the growth of the developed countries' purchasing power under the stimulus of trade liberalisation. However, the fact remains that, in the broad areas indicated above, the developed countries have not been wholly faithful to the letter nor to the spirit of the GATT, to the detriment of the LDCs.

For their part, the LDCs have been too weak to obtain redress through the GATT machinery. In an institution which is primarily motivated by a reciprocal bargaining process, they have no real bargaining power. Their domestic markets, which are their bargaining counters, are too poor for them to attract concessions whether by offers or by threats of retaliation. The extension to LDCs of non-reciprocity in trade negotiations does not improve their bargaining power in any real sense for, while it allows LDCs to withhold their tariffs from negotiation, it still leaves them dependent on the willingness of the developed countries to make unreciprocated concessions.[1]

Because of their bargaining weakness in the GATT, the LDCs have sought to establish an organisation in which they can stake their trade claims on the basis of equity. They have tried to launch a political counter-attack on those developed country policies which have raised seemingly intractable problems in the GATT framework. The platform for this counter-attack is UNCTAD.

It remains to be seen whether UNCTAD will be any more satisfactory to the LDCs than the GATT has been (and might yet be). UNCTAD appears to have significant advantages over the GATT from the viewpoint of the LDCs. UNCTAD was created with the specific object of promoting the development of the LDCs through trade. The LDCs thus play a central part in its deliberations, in contrast to their peripheral role in the GATT.

1. E.g. in the form of tariff reductions on products of special interest to LDCs (as were made in the Kennedy Round) or of tariff preferences on these products.

Moreover, UNCTAD is equipped to deal with the entire range of development problems, including aid, investment, and liquidity as well as trade, and to adopt a positive approach towards exploring new solutions to existing trade problems, for example, in the fields of commodity agreements and tariff preferences. The GATT is prevented by its constitutional limitations[1] from attempting to fulfil a comparable role and, being basically a list of things *not* to do, it inevitably suffers from a certain negativity of approach. The potential disadvantage of UNCTAD, however, is that it has no legal 'teeth' and could easily degenerate into a debating society, whereas the GATT's 'teeth', though not as sharp as they might be, can still bite.

Whatever the relative advantages and disadvantages of the organisations, the LDCs appear to have chosen UNCTAD, which was largely of their creation, as the principal international trade forum in which to express their views on their trade problems and to make their needs in this respect understood. If this is the case, it is reasonable to assume that it is in UNCTAD that major policy negotiations on the LDCs trade problems will take place in future.

This does not mean that UNCTAD will displace the GATT. The GATT will remain the principal mechanism for multilateral trade liberalisation, especially among the developed countries, and will continue its work under Part IV on reducing barriers to LDC exports. Indeed, this part of its work may receive a fresh impetus now that the Kennedy Round is over. The GATT is also an indispensable repository of technical expertise in certain fields of trade policy and could be used as the instrument for translating broad UNCTAD policy recommendations into feasible working agreements.[2] Whereas, at present, relations between GATT and UNCTAD are still unresolved, it is clear that the two organisations would be most effective if they worked closely together to solve trade and development problems.[3]

Postcript: The Kennedy Round Results

The Kennedy Round was formally concluded on 30 June 1967, when the legal documents embodying the results of the Round—in terms of tariff concessions and other new obligations—were signed in Geneva. The negotiations had opened in May 1964, but after almost three years of preparatory work, the really intensive bargaining took place in a few weeks preceding the bargaining deadline of 15 May 1967, when a 'package deal' proposed by the Director-General of the GATT was accepted

1. The articles of the Havana Charter on commodity agreements were excluded from the text of the GATT. As for tariff preferences, the difficulty of reconciling them with the most-favoured-nation clause is obvious. Nevertheless, the GATT is studying the question of preferences and has granted a waiver to Australia to open preferential duty quotas to LDCs. The Australian quotas cover trade to a value of £5¼m p.a., over half of which is in floor coverings and paper.
2. N.B. Any decision by UNCTAD on tariff preferences would have to be referred to the GATT for an amendment or waiver from the most-favoured-nation clause. The same applies to any other UNCTAD recommendation which affects the rights and obligations of contracting parties to the GATT.
3. The GATT and UNCTAD may merge their trade promotion activities.

by the four main participants (EEC, USA, UK, Japan) to secure agreement over the negotiations as a whole.

Fifty-four countries took part in the negotiations, including 27 LDCs, of whom 7 participated on the basis of non-reciprocity.[1] A further 8 participating LDCs accepted reciprocity but did not make any concessions.[2] During the negotiations Argentina, Iceland, Ireland, and Poland took steps to become contracting parties to the GATT.

The objectives of the Kennedy Round were:

(a) to reduce tariffs substantially, with a target of a linear cut of 50%;

(b) to reduce or eliminate non-tariff barriers;

(c) to provide acceptable conditions of access to world markets for agricultural products;

(d) to reduce barriers to the exports of LDCs.

It will be some time before the results of the Kennedy Round are fully analysed, in relation to the above objectives. However, summaries issued by the GATT and the UK Government allow a preliminary judgement to be made.[3]

Tariff cuts

Tariff concessions were made by 38 participating countries, including 12 LDCs.[4] These concessions cover goods currently traded to a value of about $40 billion. Concessions in the form of tariff cuts will be implemented in instalments, starting in 1968 and becoming fully effective in 1972.

The GATT Secretariat has summarised the depth and coverage of tariff cuts agreed by the major industrial countries, viz. the EEC, Japan, Sweden, Switzerland, the UK, and the USA. Out of total imports (excluding cereals, meat, and dairy products) valued at $60 billion, these countries have agreed to tariff cuts on imports worth $26 billion. Of this latter trade, $18 billion will receive reductions of 50% or more. In addition, tariffs on $6 billion worth of imports were bound.[5]

This leaves a balance of about $28 billion of the above countries' imports on which no concessions were made. Of this balance, $23 billion was free of duty before negotiations started. So only $5 billion worth of these countries' *dutiable* imports was left untouched and a considerable proportion of this was, in any case, subject to low duties (of 5% or less).

The average tariff cut by the industrial countries has been estimated at 35%, i.e. about two-thirds of the initial target of 50%. In fact, there were wide variations around this average cut within a range of nil to over 50%. The higher percentage cuts were made for the most part on the lower rates of duty.

1. Cyprus, Ghana, Ivory Coast, Malta, Niger, Togo, and Uganda.
2. Ceylon, Indonesia, Nicaragua, Nigeria, Pakistan, Sierra Leone, UAR, and Uruguay.
3. GATT Press Releases GATT/992, 30 June 1967 and GATT/995, 3 August 1967; also Cmnd, 3347, July 1967. UNCTAD has since published a preliminary evaluation of the results (TD6).
4. Argentina, Brazil, Chile, Dominican Rep., India, Israel, Jamaica, S. Korea, Malawi, Peru, Trinidad and Tobago, and Turkey.
5. I.e. bound against an increase.

Tariff cuts by the industrial countries were deepest and most extensive in the following main sectors of trade: non-ferrous base metals, chemicals, machinery, transport equipment, precision instruments, and miscellaneous manufactures. Cuts were below average in the sectors of tropical products, other agricultural products, iron and steel, and textiles and clothing.

Non-tariff barriers

Tariff concessions by the EEC and the UK on chemicals were made conditional in part on the abolition by the US Congress of the ASP method of customs valuation for benzenoid chemicals.[1] Certain tariff concessions on textiles and clothing were made conditional by the EEC on the extension of quota protection through the renewal of the Long Term Arrangement on Cotton Textiles. Both these conditions are relevant to the second objective of the Kennedy Round, in that they involve, respectively, the elimination and retention of non-tariff barriers. In the field of non-tariff barriers, the main achievement was an agreement on an Anti-Dumping Code to harmonise the application of the anti-dumping provisions of the GATT.[2]

Agriculture

Separate negotiations were held covering the bulk agricultural commodities, viz., cereals, meat, and dairy products. The only result was in the key sector of cereals, where an agreement was reached between the main wheat exporting countries (Argentina, Australia, Canada, and the USA) and the main importers (the EEC, the UK, the Scandinavians, Japan, and Switzerland). Without some agreement on cereals, the USA would probably have withdrawn from the negotiations, which would then have had to be abandoned.

The agreement on cereals commits the signatories to sign an international agreement setting minimum and maximum prices for the main grades of wheat, at levels above those set by the previous International Wheat Agreement.[3] Cereals other than wheat were not covered nor was agreement reached on guaranteed minimum import ratios for cereals. In addition, the signatories agreed to give as aid to the LDCs 4·5m metric tons p.a. (or the equivalent in cash) of wheat or other edible grains. Of this amount, 1·9m metric tons is to be contributed by the USA, 0·7m by other exporting countries, and 1·0m metric tons by the EEC.

Barriers to LDC exports

At the start of negotiations the LDCs presented a list of products of special export interest for consideration under the fourth objective of the Kennedy Round. Of this list, more than half the dutiable items received tariff cuts

1. ASP = American Selling Price. Benzenoid chemicals = benzene derivatives used mainly in dyestuffs and pharmaceuticals. At present, US customs duty on these chemicals is assessed not on their declared value but on the domestic selling price of equivalent US products. This means that imports are always more expensive than US products after payment of duty, so that their duty paid price is often prohibitive.
2. Article VI.
3. Now extended to expire in July 1968.

of 50% or more, while no cuts were made on one-fifth of the list. This is a very crude measure of the benefit of the cuts for the LDCs, since the cuts varied in depth and the items in importance.

As regards the main items of immediate interest to LDCs it has been mentioned above that tropical products and textiles and clothing received less than average concessions. The main obstacle to the achievement of the objective of tariff elimination on tropical commodities was the vested interest of certain LDCs in existing preferential tariffs. Nevertheless some progress was made and one-third of the items in the list of tropical products will be given duty-free entry as against 13% before the Kennedy Round.

In the case of textiles and clothing, several exceptions were claimed in order to maintain protection of 'sensitive' domestic industries in developed countries. However, there will be less high duties than there were before; in cotton yarns and fabrics two-thirds of the items will bear duties in the range 0%–10%.

Among other categories of interest to LDCs, footwear, wood manufactures, and 'miscellaneous manufactures'[1] received substantial reductions and between two-thirds and three-quarters of the items in these categories will be covered by the duty range of 0%–10%.

Future prospects

The Director-General of the GATT, Eric Wyndham White, commenting on the results of the Kennedy Round for the LDCs,[2] said that they were 'less impressive' than those for the developed countries. The participating LDCs themselves, in a joint statement,[3] stated that their 'most important problems . . . still remain unresolved'. In this connection, the statement referred to such questions as commodity agreements, non-tariff barriers, and 'compensation for loss of preferences'.

However, the Kennedy Round is not yet closed. The opportunity is still open for the developed countries to make their tariff cuts immediately effective on imports from LDCs. 'Advance cuts' would have the effect of establishing temporary preferences in favour of the LDCs during the period in which tariffs on other countries' products were being brought down according to the agreed timetable, viz. 1968 to 1972. They would create a precedent for a more comprehensive scheme of preferences and would not, *prima facie*, infringe the most-favoured-nation clause of the GATT since the preferences would be part of a general tariff reduction by developed countries. The question of 'advance cuts' is to be reviewed in the GATT in the latter part of 1967.

While the Kennedy Round, in so far as it can be assessed at this stage, may not have lived up fully to the expectations of the participating LDCs, it did result in some important concessions to them. It was significant in that it was the first GATT round of negotiations in which such concessions were a declared objective of the negotiations. In previous rounds conces-

1. E.g. basket work, artificial flowers, toys, sports goods, etc.
2. GATT Press Release 993.
3. GATT Press Release 994.

sions to LDCs *qua* LDCs were not within the terms of reference. It was also important in that it established the principle of non-reciprocity for LDCs and it proved that the developed countries, though they could have done more, were prepared to take a first tentative step towards making this principle effective in practice. For both these reasons, the Kennedy Round can be taken as evidence that the developed contracting parties to the GATT are becoming increasingly aware of the trade needs of their less developed partners and this is a good omen for the future development of this institution.

9 The Background to UNCTAD

The first session of the United Nations Conference on Trade and Development (UNCTAD) opened in Geneva on 23 March 1964 and lasted up to mid-June. It was one of the largest conferences ever held, bringing together 120 national delegations and over 1,500 participants. They were provided with a mass of well-documented information[1] on every possible aspect of the trade problems facing countries in the process of development: on trade in primary commodities, manufactures, and 'invisibles', on the principles and institutions governing trade, and also on the financial aspects of trade and development. This material formed the basis of three months of debate, negotiation, and conciliation in Geneva. At the end the delegates agreed that UNCTAD should be established as a permanent institution and a new departure in international trade relations had been made.

Preliminaries[2]

UNCTAD had been preceded by two years of discussion and preparation which did much to determine its outcome. In many respects, the preliminaries were as important as the Conference itself.

In the first place, the preliminary discussions identified the main themes, ideas, and arguments which were to run through the Conference. Secondly, the preliminaries determined that the Conference would be dominated by the LDCs, in ideas and tactics as well as in numbers.

The institutional issue

The Western developed countries were opposed to the idea of establishing a new International Trade Organisation, with universal membership, similar to that proposed by the 1948 Havana Conference.[3] They did not want to see the GATT overshadowed or supplanted by a loosely constituted international body, which might attempt to deal with trade matters by majority votes. They therefore opposed any conference which might create such a body. The Western line was that the GATT, together with the UN Economic and Social Council (ECOSOC), was competent to deal with all trade matters and that a trade conference was, therefore, unnecessary.

At first, it was the USSR which led the resistance to this line on the grounds of the GATT's lack of universality, and in particular of its in-

1. All these documents have been collected in eight volumes entitled *Proceedings of UNCTAD*.
2. Vols. I and VIII of the *Proceedings* contain the official papers on the formation of UNCTAD. UNCTAD has also published a summary of 'Basic Documents on its establishment and activities'.
3. See Chapter 7, p. 127.

appropriateness for dealing with State trading countries. However, in the early 1960s the growing number of LDCs in the UN took over the opposition and, by removing the conference proposal from the sphere of East-West relations and putting it into that of relations between North and South, were able to make a much stronger and more attractive case. Eventually, the Western Countries recognised that there was a case and agreed to a conference. However, their previous negative positions were in some cases reflected at the 1964 Conference and thereafter. The existence of these attitudes on the part of the major trading countries explains why it fell to the LDCs to take the initiative in convening the Conference and why, in consequence, UNCTAD has acquired a 'LDC image.[1]

Action in the UN

The first formal call for a UN trade conference was made in December 1961, in a unanimous General Assembly resolution (passed on the same day as the UN Development Decade resolution) initiating consultations on the advisability of a conference. Subsequently, several LDCs present at the July 1962 Cairo Conference on the Problems of Developing Countries produced a strong unified demand for a trade conference. The momentum of the Cairo declaration carried over into the following month's meeting of ECOSOC in Geneva at which a unanimous decision was taken to convene a UN Conference on Trade and Development and to set up a Preparatory Committee.

The appointment of Prebisch

Early in 1963, the UN Secretary General appointed Dr. Raúl Prebisch, of Argentina, as the Secretary-General of UNCTAD. This appointment, more than any other single decision, determined what UNCTAD was to become. Prebisch was an international civil servant of long standing, having been Executive Secretary of the UN Economic Commission for Latin America since 1948. He was also a distinguished and controversial economist, who had formulated his own doctrine on the role of trade in development. Prebisch was a powerful advocate of the economic aspirations of the LDCs and, once he was put into the key position in UNCTAD, he was able to make sure that the Conference never lost sight of these aspirations.

Meanwhile, in the Preparatory Committee, these aspirations were being translated into economic formulae expressing the LDCs' own conception of world trade problems and thence into agenda items for the Conference.

Joint Declaration of the '75'

The preliminaries to UNCTAD were rounded off with a flourish when the General Assembly, in November 1963, welcomed a 'Joint Declaration of

1. The USSR and Eastern Europe, having lost the political initiative and not being able to offer the LDCs much in the way of immediate export opportunities, were eventually relegated to a subsidiary role in the Conference of which they had been the original sponsors.

75 Developing Countries'[1] on UNCTAD. This declaration represented a consolidation of the common front established at Cairo. It called for 'a new international division of labour, with new patterns of production and trade', leading to an 'increase in productivity and purchasing power of the developing countries which will contribute to the economic growth of the industrialised countries as well and thus become a means to world-wide prosperity'. To achieve this aim, the declaration proposed 'a dynamic international trade policy', involving the expansion and diversification of the LDCs' trade, the removal of barriers to their exports, fair and stable export prices, more and better aid, and, if necessary, the establishment of new machinery for implementing this policy.

The Prebisch Report: Diagnosis

The main themes of the Declaration of the '75' were expounded in full in a Report by the Secretary-General of the Conference—the 'Prebisch Report'—entitled *Towards a New Trade Policy for Development.*[2] Although it has been criticised on several grounds, this Report remains the basic UNCTAD policy document. In the following outline of the Report, the analysis of trade problems is presented as it stands, comments being reserved for Appendix D to this chapter. The outline is followed by an assessment of the feasibility of Prebisch's recommendations.

A $20 billion gap

The starting point of the Report is the concept of the trade gap[3] of the LDCs. This gap results from the high demand of LDCs for essential imports of machinery and industrial inputs combined with low demand for their traditional exports, which together are alleged to create a tendency towards persistent trade deficits in LDCs.

The Report assumes:

(a) a 5% average annual income growth rate for LDCs—the Development Decade target;

(b) an average import growth rate of 6% p.a., assumed on the basis of past trends to be necessary to achieve this target;

(c) an increase in the purchasing power of LDC exports of 2% p.a.[4]

On these assumptions, and including an allowance for freight charges, interest payments and other invisible items, the Report predicts that the current account deficit of the LDCs will rise from $5 billion in 1960 to a potential $20 billion by 1970.

This gap of $20 billion is only hypothetical. It could be filled by any or

1. Including Yugoslavia and, surprisingly, New Zealand. New Zealand did not, however, form part of the LDC bloc in UNCTAD proper.
2. In Vol. II of *Proceedings of UNCTAD*.
3. See Chapter 1 for an explanation of this.
4. In the 1950s, their export volume grew by 4% p.a. but their terms of trade fell by 2% p.a., so that their exports could only buy an additional 2% p.a. of imports. See below for an explanation of 'terms of trade'.

all of three things: increased capital inflows, above-average increases in exports, and improvements in the terms of trade of LDCs. If it is not so filled, the Report states that the level of essential developmental imports into LDCs will have to be curtailed and the 5% *average* gross growth rate (representing about 2·5% growth per head) will not be achieved.[1]

Primary commodity exports

Having thus set a target of filling a $20 billion gap, the Prebisch Report sets out to analyse the prospects of achieving it within the present trade policy framework.

The Report first examines prospects for a breakthrough in demand for the primary commodity exports of LDCs and finds the prospects unpromising. The reasons adduced have been referred to above.[2] Some are the inevitable structural consequences of technological progress, i.e.:

(a) the development of synthetic substitutes for natural raw materials;[3]

(b) a diminishing raw material content in manufactures;

(c) as incomes rise, a gradual relative shift in demand away from essentials, such as food and textiles, towards durable goods and leisure and welfare services.[4]

Other obstacles are the result of restrictive policies in developed countries, i.e.:

(a) protection of high-cost temperate agriculture, often leading to surplus production;

(b) taxes and duties on tropical products.

The terms of trade of LDCs

In describing these trends in demand for primary commodities, the Report develops a general thesis concerning the terms of trade of LDCs. 'Terms of trade' is a phrase with a specific meaning in economic terminology. The terms of trade of a commodity (or group of commodities) is the ratio between the unit price of that one commodity or group and the unit price of others.[5] If the price of, say, coffee rises faster (or falls more slowly) than that of other commodities, then the terms of trade of coffee improve. If the converse happens, the terms of trade of coffee worsen.

A rise in the terms of trade of coffee implies that the seller of a bag of coffee can buy more in return than he could previously. A fall in the terms of trade means that he can buy less, or alternatively that he must sell more coffee to buy the same amount of other commodities (e.g. food,

1. See Appendix D to this Chapter for a comment on the gap analysis. Halfway through the Development Decade, the actual average LDC income growth rate was about 4% gross (1·5% per head). Net capital inflows (mostly aid) rose from $7·7 billion in 1960 to about $10·0 billion in 1966. These global figures, and those in the Report, conceal a wide range of actual and potential variations, especially between petroleum exporting LDCs and others.

2. See Chapter 3.

3. Modern synthetics are mainly derived from the petroleum refining process, so that petroleum exporting LDCs actually benefit from this trend to the detriment of exporters of e.g. rubber, natural fibres, wood, metals.

4. The tendency to spend a declining proportion of a rising income on a commodity (or group of commodities) is technically referred to as 'income inelasticity of demand' for the commodity or group.

5. E.g. $\frac{\text{Price of Coffee}}{\text{Price of Other Commodities}}$; E.g. $\frac{\text{Price Index of Primary Products}}{\text{Price Index of Manufactures}}$ (see Table 1).

clothing, implements). In other words, the terms of trade of a commodity indicate the purchasing power of a unit of the commodity over other commodities.

In the same way, when applied to the trade of countries, the terms of trade means the ratio between the price of an average unit of a country's exports and that of an average unit of its imports.[1] In this case, it indicates the purchasing power of exports over imports.[2]

Prebisch advances the thesis that, in the long run, the terms of trade of primary commodities relative to manufactured goods tend to decline. Consequently, since LDCs are largely exporters of primary products and importers of manufactures, it is alleged that their terms of trade tend to be chronically depressed, though to a lesser extent than those of primary commodities.[3] Conversely, the terms of trade of developed countries are said to rise persistently. Moreover, the ability of the developed countries to support domestic farm prices throws the full burden of weak agricultural prices upon LDC producers.

Prebisch supports these assertions with the evidence of the period 1950 to 1961, when the terms of trade of primary commodities fell by 26% relative to manufactures and those of the LDCs by 17% relative to the developed countries.[4]

Prebisch's analysis of the causes of this trend is rather complicated and is outlined in Appendix D. At face value, however, the implication is that the present mechanism of the world economy is biased against primary producing LDCs and causes them to lose resources to the developed countries through trade. To put it rather more crudely than Prebisch does, the developed countries are alleged to drain resources from the LDCs by buying cheap and selling dear.

The obvious escape from this terms of trade trap would lie in the diversification of the economic structure of the LDC away from primary production and towards manufacturing industry and services. The Report, therefore, proceeds to examine prospects for increased exports of manufactured goods from LDCs.

Exports of manufactures

As with primary commodities, the Report finds evidence of two types of obstacle to increased exports, structural and imposed. The structural obstacles are the deficiency of capital and industrial skills in LDCs. The imposed ones are the barriers set up by developed countries against manufactured imports from LDCs. The erection of these barriers is alleged to have produced another type of obstacle, that of inefficient,

1. I.e. $\frac{\text{Export price index}}{\text{Import price index}}$

2. Currency devaluation automatically worsens the *terms* of trade of a country by lowering export prices but may improve its *balance* of trade by increasing exports at the lower prices. This terminology may be rather confusing but the distinction is very important.

3. Because LDCs also export some manufactures (15% of exports) and import primary products (30% of imports).

4. Latin America bore the brunt of this fall.

'inward-looking industrialisation' in LDCs, on the basis of protected, high-cost, import substituting industries, which have little incentive to attempt to compete with international standards and costs in export markets. The Report points to the Latin American experience as evidence of this latter trend.

The GATT

The last major stop on the Report's *tour d'horizon* is the GATT. Prebisch lists the good points of the GATT and praises its achievements but considers that it lacks the dynamism necessary to carry through the type of policies necessary to overcome the obstacles previously described. In particular, Prebisch asserts that the GATT's insistence on non-discrimination and reciprocity in the move towards free trade is not appropriate to trade relations between countries at vastly different levels of economic development.

The Report argues that:

(a) the GATT system of reciprocal bargaining has been used mainly to reduce barriers to exports of interest to developed countries;

(b) the apparent symmetry of non-discriminatory and reciprocal trade policies does not correspond with the actual asymmetry of the world economy, in which the LDCs tend to run persistent deficits and therefore have a greater need for protection than the developed countries;

(c) the GATT rules have inhibited the formation of regional economic groupings among LDCs, to make import substitution more efficient and to provide a sound base for exports.[1]

The Prebisch Report: Remedies

The remedies to fill the $20 billion 'gap,' as prescribed in the Prebisch Report on the basis of the preceding diagnosis, can be summarised as follows:

(1) Direct action to *raise commodity prices* by extending domestic price supports in developed countries to cover imports from LDCs and by international agreements to maintain high and stable commodity prices.

(2) Any residual deterioration in the terms of trade of LDCs to be met by '*compensatory finance*' from developed countries, over and above regular aid transfers.

(N.B. In 1 and 2 the benefit of high prices and compensatory finance to be channelled to the governments of exporting LDCs for investment in diversification into industry.)

(3) The developed countries to grant *tariff preferences* to manufactured goods imported from all LDCs.

(4) *Regional industrialisation* among LDCs to be encouraged by preferential arrangements between LDCs.

1. The GATT rules on customs unions and free trade areas are summarised in Chapter 7. See Appendix D for a comment on this judgement of the GATT.

(N.B. Both 3 and 4 might require amendments to the rules of the GATT.)

(5) A *permanent international trade institution* to be established under the auspices of the UN, to deal with the problems of trade and development on all fronts and to co-ordinate the work of related bodies.

The above five points are expanded upon below. The Report also calls for

(a) action to reduce the burden on LDCs of debt-servicing, by 'softening' the terms of aid and of export credits;

(b) investigation of the feasibility of reducing freight charges borne by LDCs and of increased participation by LDCs in shipping and insurance.

(N.B. The Report estimates that invisible items, such as the above in (a) and (b), would account for $9 billion of the hypothetical $20 billion trade gap in 1970.)

(c) Increased trade between the LDCs and the centrally planned countries, the latter having a very high potential demand for tropical products and consumer goods.

High commodity prices

The conventional function of a commodity agreement is to eliminate short-term price fluctuations without interfering with long-term market trends.[1] The Prebisch Report proposes a new function, which is to *counteract* market trends and maintain a stable price relative to manufactured goods, i.e. to offset the alleged deterioration in commodity terms of trade. The main principles of such a type of agreement should be that:

(a) the price must not be so high as to reduce demand, encourage substitution, or induce unwanted surpluses;

(b) price fixing must be accompanied by assurances of market access, e.g. minimum import quotas, targets, or contracts, and by the removal of barriers to access, e.g. taxes and duties.[2]

(c) In order to avoid over-production in LDCs and to encourage diversification, part of the high price must be diverted from producers to governments for investment; export quotas might also be used.

The application of these principles would depend on the type of product, as follows:

(a) *Temperate foodstuffs* (and their tropical substitutes)[3] are produced in developed countries and LDCs. They have a low trade : output ratio and 'free' market prices tend to be unrealistically low.[4] The Report proposes that world prices would have to be supported above 'free' market prices and co-ordinated with domestic price support levels in importing countries. The latter should be lowered, where excessively

1. See Chapter 3.
2. LDCs which suffer from the loss of traditional tariff preferences on primary commodities will have to be compensated with additional financial aid.
3. E.g. cereals, meat, dairy products, fruits, oils and fats, sugar, tobacco.
4. In 1959–61, 80% of world production of these foodstuffs was consumed within producing countries; 20% was exported. In this situation, a 10% increase in total output in excess of domestic demand would represent a 40% increase in the amount offered for export and export prices would be depressed disproportionately. Surplus dumping aggravates this tendency.

high, by switching to other forms of farm support. This would amount to the extension of temperate agricultural protection from the domestic into the international sphere.[1]

(b) *Tropical foodstuffs*[2] are produced only in LDCs. They have a high trade : output ratio, and hence a more realistic market price, but are still said to suffer from weak terms of trade. The Report proposes commodity agreements to raise prices paid to exporting countries but suggests that in some importing countries prices paid by the final consumer could remain unaltered or even be lowered by removing internal duties on tropical products.

(c) *Raw materials*[3] differ from foodstuffs in that their main problem is substitution, with each other (e.g. aluminium with other metals) or with synthetics (e.g. synthetic rubber, fibres, plastics). The Report concedes that raw materials are compelled to obey the laws of the market and to compete with synthetics in cost and quality. Their terms of trade cannot therefore be improved by direct action on prices.

Compensatory finance

Because of the limited actual and potential coverage of commodity agreements, the Prebisch Report anticipates that the terms of trade of LDCs as a whole will continue to decline. It therefore calls upon the developed industrial countries to recognise that countries experiencing worsening terms of trade have 'a *prima facie* claim upon additional international resources',[4] in respect of past and future deterioration.

Since, according to Prebisch, the adverse terms of trade of LDCs give rise to unreciprocated transfers of purchasing power from them to developed countries, the Report proposes that the latter should accept an obligation to restore this purchasing power by means of automatic compensatory financial transfers to the LDCs, i.e. by increased multilateral grant aid, over and above any aid already being given under the 1% target.[5]

The actual mechanism for compensatory finance would involve the selection of a base date on which the terms of trade would be agreed to have been 'fair', whence any adverse movement should give rise to compensation. Since there are as many terms of trade indices as there are base dates, the selection of one would obviously be a controversial matter, especially as regards compensation for *past* deterioration.

Recognising that there is no automatic solution, the Report proposes a pragmatic country-by-country approach, based on the restoration and maintenance of 'the integrity of development programmes'. This would mean that each LDC would receive compensatory finance when adverse terms of trade could be shown to have caused a shortfall in its

1. As, for example, in the Commonwealth Sugar Agreement.
2. E.g. coffee, cocoa, tea, bananas, spices.
3. E.g. metals, fibres, rubber, leather, wood.
4. It is not made clear whether Prebisch visualises that this claim would be the prerogative of LDCs alone. One assumes that this is his intention.
5. This UN target calls for developed countries to devote a minimum of 1% of their GNP to aid and private investment in LDCs.

planned investment resources sufficient to retard its planned rate of growth. This type of scheme would necessitate the review of LDC development plans by the disbursing agency and also the imposition of conditions on the use to which compensatory finance is put by recipient governments.

In summary, the Prebisch proposals for compensatory finance appear to seek to increase the availability of aid by a semi-automatic formula,[1] while maintaining donor control over the uses to which this additional aid is put.

Tariff preferences for LDCs

The Prebisch Report calls for a new approach to the planning of export industries in LDCs, backed by market research, export promotion, and the participation of international private enterprise. This approach would aim to stimulate:

(a) diversification of production in LDCs, away from simple manufactures with low income elasticity of demand (e.g. textiles and clothing) and towards more advanced processes with dynamic growth prospects (e.g. metal transforming industries); in particular, the export by LDCs of intermediate goods (e.g. motor car components) for use in the industries of developed countries, thus creating technological linkages;

(b) diversification of LDC export markets, to lessen dependence on traditional customers.

This dual diversification should improve export prospects for LDCs while reducing the risks of 'market disruption'[2] in developed countries, hitherto caused by a concentrated range of LDC products being sold in a limited number of markets. The Report observes that, since any foreseeable increase in imports from LDCs would constitute a small fraction of the *increment* in the developed countries' consumption of manufactures, there should not be any serious problems of labour displacement in the latter countries.

However, Prebisch feels that this promotional programme would have disappointing results unless conditions of access to developed country markets were greatly improved. Furthermore, since it is probable that the benefits of any non-discriminatory reduction of trade barriers through the GATT would be snapped up by existing producers in developed countries, Prebisch proposes the preferential reduction of developed country tariffs in favour of LDCs, as a transitional stimulus for the latter's infant industries.

As proposed by Prebisch, these new preferences would work as follows:

(a) *Scope:* Preferences to be granted in principle:

- (i) by all (or most), developed countries
- (ii) to all LDCs,
- (iii) on all LDC manufactures,
- (iv) on the basis of duty-free entry.

1. The terms of trade formula.
2. Explained in footnote 3 on p. 147.

(b) *Selectivity and Duration:*

(i) Preferences to be granted separately to each industry in each LDC.

(ii) Preferences to last for 10 years from the time when the first plant in an industry starts to export.

(iii) Developed countries to extend preferences uniformly on their part.

(c) *Safeguards for developed countries* (against 'market disruption'):

(i) Preferences not to be applied to products in which LDCs are already competitive, hence any developed country to have the right to withhold a certain proportion of its imports from the preferential system.[1]

(ii) Each developed country to have a maximum preferential import quota, within a global quota for preferential imports into developed countries as a whole.

(d) *Safeguards for less advanced LDCs* (against the pre-empting of preferential quotas by the more advanced LDCs):

(i) Phased application of preferences (see (b) above) means that preferences are kept in suspense until a particular LDC is able to take advantage of them and might also mean that the less advanced LDCs come into the scheme after the more advanced have been phased out.

(ii) Preferences withheld under (c) (i) above could be granted to the less advanced LDCs.

(iii) If the supply of preferred products exceeds the global quota, the share of the total quota available to any one LDC to be limited.

(iv) LDCs whose exports are adversely affected by the loss of traditional bilateral preferences to be given priority in aid allocation.

Regional industrialisation

The Report proposes that the GATT should adopt a more flexible attitude towards regional economic integration between LDCs, so as to allow for partial and selective preferential arrangements falling short of a political commitment to a full-scale free trade area or common market conforming to the GATT.

International institutions

The Prebisch Report proposes that UNCTAD be established as a permanent organisation in the UN framework. It would consist of:

(a) a periodic Conference to review the problems of trade, payments, and capital transfers in relation to the general problem of development;

(b) a permanent Standing Committee, to continue this review between Conferences, to prepare for Conferences, and to work out and implement policy laid down by the Conference;

(c) an 'intellectually independent Secretariat'.

Such an organisation would be 'universal' in membership. It would

1. However, such products to be given full m-f-n treatment and to be allocated a *minimum* import quota.

thus be able to deal with the problems of trade with the centrally planned countries. It would also fill the gap left by the GATT[1] in the field of negotiating and co-ordinating commodity policies. Finally it would be able to co-ordinate the work of other international bodies in the trade field.

An Assessment of the Prebisch Report

The preceding outline of the Prebisch Report attempts to give an accurate interpretation of its content, without extraneous comment. Some comment must be made, however, since the Report was and is a controversial document and cannot be judged in isolation from the reactions of the audience to which it was addressed. The main points of theoretical criticism of the Report are outlined in Appendix D to this chapter. This section seeks to assess the political feasibility of Prebisch's recommendations.

This assessment has the advantage of four years of hindsight. However, in those four years, only the institutional proposal has become a *fait accompli*. The proposals relating to developed countries' trade policies are still unresolved and it is upon these that this assessment concentrates.

The overall strategy of the Prebisch Report seems to have been to abandon the quest for liberal solutions to trade problems,[2] to examine the ways in which the developed countries protect the interests of their own producers, and to seek to extend this protection to cover producers in LDCs. The apparent object of this strategy is to try to reconcile the demands of the LDCs with the politically powerful protectionist forces within the developed countries: in other words, to use protectionist arguments to win concessions from developed countries.

This pattern can be discerned in the proposals for commodity agreements, compensatory finance, and preferences. The proposals for commodity agreements for temperate foodstuffs are the most interesting in this respect, since temperate agriculture is strongly protected in developed countries. It is possible, however, that these latter proposals fall between two stools. On the one hand, the low-cost producing and importing countries (e.g. Australia, UK) oppose, as might be expected, the move to inefficient production and higher prices. On the other, the protected high-cost producers (e.g. EEC) appear reluctant to lower their support costs and to offer guarantees of import access. These opposing interests can be inferred from the recent Kennedy Round Wheat Agreement, which raised minimum prices moderately but failed to provide for market access.[3]

Since raw materials are by their nature excluded from a high price

1. And only partially filled by the Interim Co-ordinating Committee on International Commodity Agreements (ICCICA).
2. I.e. free trade solutions.
3. See Chapter 8.

régime,[1] the best prospects for the implementation of Prebisch-type commodity agreements seem to lie in tropical foodstuffs. Leaving cane sugar and vegetable oils aside as part of the temperate zone problem, this turns out to be rather a narrow field, consisting of coffee, cocoa, tea, and possibly bananas, with a coffee agreement already in operation.[2]

Whatever objections developed importing countries might raise against giving unconditional aid through high prices for these products,[3] the LDCs have a potential trump card in their monopoly of production. If they could exploit their monopoly power by agreeing to control supplies, the developed countries could do little about it. To date, however, such unanimity between LDC producers has been rare and short-lived.

If commodity agreements as proposed by Prebisch can be said to be a form of aid through trade, his proposal for compensatory finance suggests a straight aid exercise. The only connection between compensatory finance and trade is that the volume of finance is linked semi-automatically to a terms of trade formula.

While there is a wide measure of agreement in developed countries that the LDCs need more aid to diversify and expand their economies, this agreement is based not on any concept of the adverse terms of trade of LDCs but on an appreciation of their visible poverty and of the ability of the developed countries to help them. The restraints on an increase in aid by developed countries are political and financial. Aid is not being held back for want of a formula, such as Prebisch offers. Moreover, the particular formula which Prebisch proposes is itself the subject of controversy.[4]

Thus, argument on the compensatory finance proposals tends to be diverted from the main issue—the need for more aid—by the red herring of the terms of trade. This could be criticised as a tactical miscalculation in the Prebisch Report.

Finally, the proposal for tariff preferences in favour of LDCs is possibly the most feasible. It rests on the generally accepted argument that 'infant industries' require transitional protection until they are well established.

The type of scheme proposed can be seen from two angles. It can be viewed as a scheme for a subsidy, paid out of customs revenues, by the taxpayers of developed countries to industries in LDCs, to enable the latter to increase their exports at the expense of the trade of other developed countries. This is a 'protectionist' argument in its favour.

On the other hand the scheme can be construed, without contradiction, as an advance step towards eventual free trade, exposing domestic industries in developed countries to duty-free competition from some, if not all, sources.[5]

The subsidy aspect of preferences would be predominant if trade benefiting from preferences were restricted by quotas and/or if prospects

1. Though they are suitable for conventional buffer stock agreements.
2. See Chapter 3, p. 68 ff.
3. This form of 'aid through trade' is explained and criticised in Chapter 1,
4. See Appendix D.
5. See also Chapter 1, on the relevance of preferences to the needs of LDCs.

of continuing trade liberalisation between developed countries were poor. The free trade aspect would prevail if the opposite were the case.

There are prospects that some initiative on preferences might be taken by the developed countries in the near future.

As an attempt to revolutionise international thinking on world trade, the Prebisch Report is a unique effort. Because of the scale of the changes which it proposes, its success or failure will not be apparent for several years yet. The above assessment indicates where the areas of success may lie.

Appendix D

Comments on the Prebisch Analysis

The object of this Appendix is to list some of the points of criticism which have been made in academic and other circles of the analysis of LDCs' trade problems in the Prebisch Report. Though they are mostly academic criticisms, they also underly the opinions which have been expressed, above and elsewhere, on the political feasibility of the Report.

The Gap

Its size

The figure of $20 billion quoted by Prebisch for the hypothetical 1970 current account deficit of the LDCs is a UN estimate. One alternative estimate among many, by Dr. B. Balassa,[1] produces a range of $9·4 to $12·0 billion. The upper limit of this latter estimate is well within the reach of current aid programmes[2] and is therefore far less dramatic than the UN estimate. The latter should not be regarded as a hard fact.

The role of investment imports

Whatever the size of the gap, the concept is based on the assumption that the rate of income growth in LDCs is linked, through the rate of investment, with the rate of imports. This is because it is held that productive investment in LDCs must comprise a minimum of imported capital equipment and that the continued productivity of investment must be maintained by a flow of imported raw and intermediate materials, fuels, spare parts, etc.; i.e. that investment in LDCs has a high import content. This is generally so if the investment is in industry but the import content of investment in agriculture is generally far lower and there is increasing awareness in both developed and less-developed countries that

1. *Trade Prospects for Developing Countries*, Irwin, 1964.
2. $10 billion in 1966.

agriculture may, in specific cases, be the more productive investment.

The 6% import growth rate assumed in the UN gap estimate is based on the record of the 1950s, when industrialisation was the keynote of development plans. With the increased importance given to agriculture in the mid-1960s, the 6% import growth rate may turn out to be on the high side and this would reduce the scale of the gap.

Bridging the gap

According to the Prebisch analysis, the gap may be bridged by any or all of three factors: aid, increased exports, and improved terms of trade. This is a potentially misleading generalisation when applied to the LDCs as a whole.

Any balance of payment deficit is ultimately traceable to an excess of investment over saving and can only be removed by a relative increase in saving, if the rate of investment is to be maintained. As has been explained in Chapter 1, trade and aid are not always substitutable for each other because of the different ways in which they act to remedy the savings deficiency. In implying that they are generally substitutable, the Prebisch analysis gives prominence to the particular problems of countries suffering from a 'foreign exchange gap' (e.g. Latin America), as against those which suffer from a basic savings gap (e.g. Africa).[1] For the latter, aid is often the only remedy.[2]

Demand for Primary Products

The thesis of slow growth in demand for primary products is central to the gap proposition and also to the terms of trade theory. One of the arguments in support of this thesis is the allegedly low income elasticity of demand for primary products. While this tendency does appear to exist at the high levels of income prevalent in developed countries, it is probable that demand is actually highly elastic at low income levels, e.g. in the LDCs themselves and in the centrally planned countries. The prospect of a breakthrough in demand in these non-traditional markets should not be underestimated. However, Prebisch's overall strategy leads him to concentrate on trade in traditional developed country markets.

The Terms of Trade

Theory

Prebisch's argument in support of his theory of persistent deterioration in the terms of trade of primary commodities runs as follows:

1. The Report implicitly acknowledges this bias but justifies it on the grounds that the poorer, 'savings gap' countries will in due course progress to the 'foreign exchange gap' stage. Other examples of the influence of Latin American experience on the Report are the terms of trade argument and the discussion of 'inward-looking industrialisation'.
2. This argument should be read in connection with Chapter 1, section on 'Trade and Aid'.

1. *Primary commodities*

(a) The population of LDCs is largely engaged in primary production and is growing fast.

(b) Demand for primary products is growing slowly.[1]

(c) Despite this, the growing LDC labour force continues to seek employment in primary production and this keeps wages down.

(d) Increased primary productivity cannot therefore be absorbed in rising wages but manifests itself in lower prices for primary commodities.

2. *Manufactures*

(a) The population of developed countries is largely engaged in manufacturing industry and there is a labour shortage in these countries.

(b) Organised labour is thus able to ensure that wages keep in step with (or outstrip) rising productivity and thus maintain an upward pressure on the price of manufactured products.

This line of argument is rather difficult to analyse at the level of this handbook.[2] One obvious comment which suggests itself is that population control in LDCs would strike at the source of the pressure on the prices of their primary products. Another is that there must be a lower limit, even in LDCs, to the wage which labour will accept and that this might be raised by administrative action and labour organisation. A third is that low prices benefit primary producers to the extent that they consume their own products or those of other producers and vice versa for manufactures. This last point is very important, especially in the context of intra-LDC trade.

Facts

Quite apart from the theory, the facts are also controversial. The evidence of the Prebisch Report is drawn from a terms of trade index based on 1950, a peak year for LDC export prices, and ending in 1961, a year of depression. A different base date would tell a different story. An index based on 1938 would show an improvement in the post-war terms of trade of LDCs. Historical evidence on the terms of trade is not conclusive.

Furthermore, calculations of price indices of manufactured goods over long periods of time do not take account of any improvements in quality, which would in themselves justify price increases, or of the introduction of new products. On both counts, the composition of the price index of, say, chemical products today bears little resemblance to that of 30 years ago. In contrast, there is limited scope for improving the quality of primary commodities and no foreseeable prospect of discovering new ones.

Relevance

This controversy over the Prebisch terms of trade theory is, in a way, irrelevant. The fundamental criticism of the theory relates not to the

1. But see previous section.
2. Theoretical refutations of the Prebisch theory are themselves complex.

mechanics of alleged deterioration but to the use of the terms of trade as an index of relative *welfare*—between one set of producers and another or between one country and another.

Claims for aid and special treatment for LDCs rest on a demonstration of their relative poverty—of their low incomes. The terms of trade are an index of relative prices, not relative *incomes*. Since the volume of trade tends to vary inversely to price, falling terms of trade can be accompanied by rising incomes and vice versa.[1]

Any attempt to use the terms of trade to measure welfare must be based on the concept that at some particular time there is, or was, such a thing as a 'fair' price relationship between different products, which must be maintained despite ever-changing technology, productivity, and demand patterns. Classical economic theory does not admit of such a concept and it is, indeed, difficult to make common sense of it.[2]

The GATT

Prebisch may have overstated his case on the GATT. The rigidity of the institution he describes is in contrast with the actual flexibility of the Agreement in its treatment of LDCs. This flexibility has been increased since 1964 by the introduction of 'non-reciprocity' in Part IV of the GATT.[3]

The Report is on firmer ground in claiming that the balance of advantage in the GATT has rested with the developed countries. However, it would be difficult to prove the assertion that the GATT rules have inhibited regional integration. The rules have in fact been 'bent' to allow the formation of LAFTA, and in any case, it is usually the lack of the political will to co-operate that is the critical obstacle to integration.

1. This would depend on the price elasticity of demand. Volume changes outweigh the influence of price changes on revenue in cases where demand reacts strongly to price changes (where elasticity of demand is greater than unity—see Glossary). The Prebisch Report makes the general assertion that demand for LDCs' primary exports is inelastic and hence equates falling terms of trade with falling incomes. This is not so for many commodities. E.g. the petroleum producing LDCs enjoyed a rapid rise in export revenue in the 1950s but their terms of trade were weak. Are they worse off?
2. However, the concept is the basis of many agricultural price support policies. In the USA, for example, *'parity prices'* for farm products are in some way related to the maintenance of the purchasing power enjoyed by these products in 1909–14. Since then, of course, farm productivity has soared and a whole new range of goods for the farmer's 'shopping basket' have appeared.
3. See Chapter 8.

10 The Record of UNCTAD

The 1964 UNCTAD Conference did not fulfil the aspirations of the Prebisch Report. In view of the scale of the innovations proposed by the latter, this is not surprising. The Conference did, however, take the crucial decision to perpetuate itself and thus to establish machinery to keep in motion the potentially productive flow of proposals and counter-proposals on trade, which was stimulated by the Prebisch Report and the Conference itself. If the former may appear to have been given undue emphasis in this handbook, this is because it is an identifiable source of this flow of ideas. By contrast, the actual resolutions of the Conference, not being legally binding, were largely unproductive in themselves and are important only as signposts in the long-term evolution of thinking on trade questions. The outline which follows of the Conference and its main recommendations should be seen in this light. This outline is followed in turn by a description of the permanent machinery of UNCTAD and its current work.

The 1964 Conference[1]

The LDC blocs

The reactions of the Conference participants to the Prebisch Report were varied. The LDCs, on the whole, were enthusiastic, although there were differences of outlook between the more advanced and the less advanced and between those which were members of existing preferential systems and those which were not. As the Conference progressed, however, the LDCs formed themselves into negotiating blocs on continental lines: African, Asian, and Latin American. The Afro-Asians and Yugoslavia in turn formed a combined bloc and all the LDCs gradually united when necessary to form the 'group of 77'.[2] The formation of blocs simplified negotiations, since the bloc members agreed to nominate representatives to speak for the whole bloc. The readiness of the LDCs to sink their differences in this way was a significant side-effect of the Conference and the blocs have since been accorded formal recognition in the permanent UNCTAD machinery.

Conciliation

A related development in the course of the Conference was an increasing awareness by the LDCs that passing resolutions by means of their bloc

1. Geneva, 23 March to 16 June 1964.
2. The '75' of 1963 less New Zealand plus Kenya, S. Korea, and S. Vietnam. Taiwan and Israel were not part of the '75' or the '77.' Ivory Coast did not add its name to the 1963 Declaration of the '75' nor to the 1964 Declaration of the '77', which was issued after the Conference. The title '77' has persisted although the size of the group has since increased.

votes over the heads of the dissenting developed countries was not a particularly fruitful pursuit. Both sides realised the need to avoid confrontation and to seek consensus where possible. In fact, conciliation and mediation played a vital part in bringing the Conference to a conclusion. The President of the Conference[1] and the Secretary-General provided the guiding force behind this conciliatory process, which was facilitated by the existence of the LDC blocs. Conciliation, too, has been formalised and has been written into the voting procedure of UNCTAD.

Attitudes of developed countries

The developed countries did not close ranks to the same effect as did the LDCs. There was a broad division between those which supported the GATT system of trade and those which did not, but the division was not always clear as there were further overlapping differences of opinion.

Both the USA and the UK had reservations on important aspects of the Prebisch proposals. This was true too of most other developed countries. With a few exceptions, the developed countries accepted in its entirety neither the diagnosis nor the remedies suggested by Prebisch. They were inclined to defend the GATT against criticism made of it. However, most of them accepted that there were certain problems to be tackled.

The USA adopted the most extreme position against proposed innovations and had an exceptionally negative voting record at the end of the Conference. It was reported sarcastically at the time of the leader of the US delegation that 'he had nothing to offer and so he offered nothing'.

The UK proposals

The UK delegation was more constructive. Besides calling for action through the GATT to reduce trade barriers, the UK representative, Edward Heath,[2] stated that the UK was prepared to:

(a) extend Commonwealth preferences to all LDCs as part of a general scheme of preferences (subject to Commonwealth approval);

(b) support proposals for preferences between LDCs;

(c) co-operate in commodity agreements providing for reasonable minimum prices and access to markets;

(d) support proposals for supplementary financial assistance for shortfalls in export receipts.[3]

In addition to making these offers, Heath played a leading part in the conciliation procedures on behalf of the developed countries and has been given a large share of the credit for the success of these procedures in averting a final deadlock.

1. The President was Dr. A. M. El-Kaissouni, then Vice-President of UAR. He had also been President of the 1962 Cairo Conference (see Chapter 9) at which Prebisch was a UN observer.
2. Then President of the Board of Trade.
3. The UK and Sweden later took the initiative in making a proposal on supplementary finance which was adopted by the Conference.

The French proposals

France was the leading proponent among the developed countries of the anti-GATT viewpoint. Of the other five EEC members, Germany and the Netherlands appeared to be the least sympathetic with the French line and often took up a position similar to that of the UK and the EFTA countries. Belgium was the closest supporter of France.[1]

France had an individual and integrated policy to present at UNCTAD. The French proposals, which bore a resemblance to certain of those of the Prebisch Report, were mainly concerned with trade in foodstuffs.[2] They departed from the principle of prices set by competitive market forces in favour of 'managed prices' set by governments, which they considered to be more in line with pricing policies in the 'real world'. They proposed that these managed prices should be set at levels which would bring about desired transfers of income from buyers to sellers. These proposals are variously referred to as 'the organisation of markets', 'the Pisani Plan', or 'the Baumgartner Plan'. In practical application they would provide for:

(a) high temperate food prices, maintained by agreement, with resulting surpluses being given as food aid to LDCs;

(b) high tropical food prices maintained by variable import levies in developed countries, the proceeds of the latter being refunded to the governments of exporting LDCs.

For manufactured goods, the French adopted the 'Brasseur Plan'[3] for selective, temporary, and decreasing preferences, to be negotiated with each LDC in respect of each of its industries.[4]

The USSR

Although the USSR had been the original proponent of a trade conference, it did not make a very significant contribution in the event. Its main interest was in the formulation of general principles on trade and trade policies and in the establishment of a new trade institution of which it could be a member. Most of the East European countries followed the lead of the USSR at the Conference.

Procedures

The main work of the Conference was farmed out to five committees as follows:

First Committee:	International Commodity Problems
Second Committee:	Trade in Manufactures and Semi-manufactures

1. The Six operate in UNCTAD as separate countries for the most part.
2. There is, however, an important difference between the Prebisch Report, which aims at transitional measures to accompany a long-term evolution towards a competitive world economy, and the French plans, which would tend to rigidify the world economy in its present state, at least in the agricultural sector.
3. M. Brasseur was a Belgian minister and spoke for the EEC on certain questions at UNCTAD in 1964.
4. As proposed by Prebisch, preferences would be automatic not negotiated, and they would not be degressive.

Third Committee: Invisible Trade and Financing for Expansion of International Trade
Fourth Committee: Institutional Arrangements
Fifth Committee: Expansion of International Trade; Implications of Regional Economic Groupings

These committee titles corresponded to the main agenda items before the Conference. The agenda covered similar ground to that of the Prebisch Report. The task of the committees was to produce recommendations on these topics for submission to the Conference in plenary session. Once approved, the recommendations were to be embodied in the Final Act of the Conference.

Since the Final Act, although not legally binding upon signatories, implied a degree of moral commitment to its recommendations by countries voting for them, the negotiations in committee over the form of these recommendations were often closely fought. Whenever deadlock was reached, compromise solutions were sought informally between the blocs, often through the good offices of the President and the Secretary-General. The process of compromise went on after the committees were wound up, to the last possible moment. In fact, four of the most important recommendations of the Conference were presented by the President, on the basis of informal consultations with leaders of blocs, after the committees had been unable to reach satisfactory solutions.[1] All the Presidential drafts were adopted unanimously.

Recommendations

A summary follows of the main recommendations of the Conference.[2] The majority were put to the vote and, although the developed countries were frequent abstainers and dissenters, the voting pattern was not consistent. References in the summary to actual votes are limited to those of France, the UK, and the USA. France was usually accompanied by Belgium and to a much lesser extent by other EEC members; these countries tended to use abstentions in preference to negative votes. The UK's voting pattern was similar to those of the developed Commonwealth countries and to a lesser extent of other EFTA countries. The USA took an independent line in voting. The LDCs voted in favour of all resolutions virtually *en bloc*, in most cases with the support of the USSR and the Eastern European countries.

General and Special Principles (Fifth Committee)

The Conference recommended a set of 15 General Principles and 12 Special Principles 'to govern international trade relations and trade policies conducive to development'. Because of the economic and political

1. The Presidential drafts related to international commodity policy (A.II.1), to the removal o barriers to trade in manufactures (A.III.4), tariff preferences (A.III.5), and institutional arrangements (A.V.1.) These code numbers are those of the Final Act.
2. They are contained in the Final Act, published in Vol. I of the *Proceedings of UNCTAD*; also in Cmnd. 2417 (HMSO, 1964; 16/6).

generalisations necessarily involved in such principles, they tended to receive negative votes or abstentions from the developed countries.[1] The principles were intended to form the subject of future work, leading to eventual agreement from all sides. Because of the vagueness of this formula, it would be realistic not to ascribe too much importance to these principles. However, the voting record on the principles is a useful rough guide to attitudes towards the main issues before the Conference.

France, the USA, and the UK voted for the following General Principles:

General Principle 10: Promotion of LDC regional integration.
GP 13: Transit and access rights of land-locked states.[2]
GP 15: Special attention to less advanced LDCs.

Among the other principles, none of these three countries voted for:

GP 7: Market access and remunerative prices for primary products.
GP 8: Preferences and non-reciprocity for LDCs.
GP 11: More and better aid, without political strings.

The EEC countries were the only ones not to vote for:

GP 9: Outward-looking regional integration.

Of the 13 Special Principles, France, the USA, and the UK all voted for the following, which were adopted unanimously:

Special Principle 2: Industrialisation of LDCs; modernisation of agriculture.
SP 6: Help to LDCs with problems of substitution.
SP 10: Transfer of technology to LDCs.

In addition, the UK voted for:

SP 4: Right of LDCs to protect infant industries.
SP 5: Fair agricultural support policies.
SP 13: Trade and payments arrangements between LDCs.

France also voted for Special Principles 4 and 13 and further for:

SP 1: Targets for LDC exports.
SP 9: No dumping.

None of the three voted for:

SP 7: Compensatory finance for declining terms of trade.
SP 8: Criteria for agricultural surplus disposal.
SP 11: Soft, untied aid; repayment in local currencies.

No vote was taken on Special Principle 3, concerning preferences, which was withdrawn by agreement.

Commodity Trade (First Committee)

The recommendations which followed the General and Special Principles

1. The USA voted against or abstained from voting on 20 of the 27 principles, the UK on 16, France on 13.
2. This principle has since been embodied in an international convention.

were more specific. Nine resolutions were adopted on trade policies for primary commodities. The principle recommendation (A.II.1) related to international commodity arrangements, to the removal of tariff and other barriers to the expansion of the LDCs' exports, and to surplus disposal policies. On commodity agreements, it was proposed that they should be sought formally or informally, using techniques appropriate to each individual commodity and providing for:

(a) equitable and stable prices;
(b) the promotion of consumption;
(c) satisfactory access to markets;
(d) the co-ordination of production and marketing policies.

Other recommendations dealt with, *inter alia*, promotion of trade between LDCs; world food aid; competition from synthetics and substitutes; and studies of commodity problems (A.II.5 to 8).

Trade in Manufactures (Second Committee)

There were eight recommendations on policies to expand and diversify the manufactured exports of LDCs. Guidelines were laid down for the removal by developed countries, on a non-reciprocal basis, of tariff and barriers along traditional GATT lines; i.e.:

(a) standstill on new restrictions;
(b) maximum tariff reductions on products of interest to LDCs;
(c) elimination of quantitative restrictions;
(d) elimination of tariff differentials between raw and processed materials (A.III.4).

Related recommendations called for various promotional, administrative, institutional, and other measures to stimulate LDCs' exports to developed and centrally planned countries and to each other (A.III 3, 6, 7, and 8).

The lack of agreement on tariff preferences, both between developed countries and LDCs and within each group, was recognised in a unanimous recommendation (A.III.5) calling upon the UN Secretary-General to appoint a committee to work out a broadly acceptable scheme, with reference to the work of the GATT in this field.

The Conference resolved to support initiatives to set up a UN specialised agency for Industrial Development, to take over and expand the functions of the UN Centre for Industrial Development (A.III.1).[1]

Finance and Invisibles (Third Committee)

The Third Committee was the most prolific. It produced 26 recommendations, of which all but four dealt with aid and related issues. This large output was probably due to the fact that aid presented a more familiar and less controversial set of issues than did trade.

1. The UNCID was a subsidiary organ of ECOSOC. It has since been replaced by the UN Industrial Development Organisation (UNIDO). UNIDO is not a specialised agency but an organ of the UN General Assembly. It has its headquarters in Vienna and is holding an International Symposium on Industrial Development in Athens in November/December 1967.

One group of these recommendations (A.IV.1 to 6) laid down broad guidelines for the provision of long-term, continuing financial aid. They dealt with all aspects of aid policy, including debt service problems and the repayment capacity of LDCs. On the volume of aid, the Conference reiterated the call for a net transfer to LDCs of official aid and private capital from the developed countries of at least 1% of the latter's national incomes (A.IV.2).

The other resolutions included recommendations for:

(a) establishment of a UN Capital Development Fund to finance development projects[1] (A.IV.7);

(b) investigation of schemes to increase capital flows to LDCs by subsidising interest rates (A.IV.II and 15);

(c) measures to promote foreign private investment in LDCs (A.IV.12);

(d) measures to make the IMF Compensatory Credit System[2] more flexible (A.IV.17);

(e) a study of international monetary issues in relation to the needs of LDCs (A.IV.19).

However, the most interesting resolution to come out of the Third Committee was that requesting the World Bank to study the feasibility of a modified version of the UK/Swedish proposal for Supplementary Financial Measures (A.IV.18). This was the major innovation to come out of the Conference. Since the results of the World Bank survey are summarised below,[3] it need only be said here that this recommendation, calling for long-term finance to offset unforeseen shortfalls in export *revenue*, has no connection with 'compensatory finance' for adverse terms of trade. The latter was never mentioned explicitly in the Conference recommendations except in Special Principle 7, mentioned above.

On invisible trade, the Conference recommended:

(a) consultative machinery between shippers councils and the Liner Conferences;[4]

(b) improvement of ports;

(c) development of merchant marines by LDCs on sound economic criteria (all in A.IV.22);

(d) strengthening of national insurance and reinsurance markets, so as to increase retained premium income (A.IV.23);

(e) promotion of tourism in LDCs, with financial and technical assistance from the developed countries (A.IV.24).

Institutional arrangements (Fourth Committee)

Apart from a residual group of recommendations on various subjects

1. The UN Special Fund, now part of the UN Development Programme, can only finance pre-investment surveys.
2. This provides automatic short-term drawing rights to LDCs in the event of unforeseen shortfalls in export receipts.
3. See p. 184.
4. A 'Liner Conference' is an association of shipping lines operating on the same routes, which agrees to set freight rates and to maintain a certain frequency of services. 'Shippers' are the persons or firms who buy freight space on ships; they are the customers of the shipping lines.

(A.VI.1 to 10), the last main topic of the Final Act was that of the establishment of institutional machinery. Towards the end of the Conference, when many other questions had been resolved, this stood out as the key issue on which the success of the Conference was seen to depend. It was only resolved by an eleventh hour compromise.

The tripartite structure proposed in the Prebisch Report—Conference, Standing Committee, and Secretariat—was accepted by both sides. The essence of the compromise was as follows:[1]

(a) the developed countries conceded:

(i) the basic principle of establishing a new institution;

(ii) that the institution would be answerable to the General Assembly and not to ECOSOC;

(iii) that the institution would have very wide terms of reference and a broad range of subsidiary bodies;

(b) the LDCs conceded:

(i) to shelve their commitment to an International Trade Organisation;

(ii) the principle of weighted membership of the Standing Committee, including implicit agreement on permanent membership for the major developed countries;

(iii) most important of all, the principle of reliance on conciliatory processes rather than on bloc voting.

The actual institutional machinery set up by the General Assembly on the recommendation of the Conference (A.V.1) is described in the next section.

The Continuing Machinery of UNCTAD

The Conference

UNCTAD was established as an organ of the UN General Assembly by a resolution of the latter dated 30 December 1964, identical in substance to the relevant recommendation of the 1964 Conference. Constitutionally, UNCTAD is a periodic Conference.

Membership of UNCTAD is open to all states which are members of the United Nations or the UN specialised agencies or the International Atomic Energy Agency. This formula brings in such states as West Germany, Switzerland, S. Korea, and S. Vietnam, which are not UN members, but excludes China (Mainland), East Germany, N. Korea, and N. Vietnam. All states eligible have become members of UNCTAD; there are 131 members at present.

It is provided that the Conference shall be convened, at a time and place set by the General Assembly, at least every three years. The second session of the Conference will be held in New Delhi, from February to

1. For an account of the negotiations towards this compromise, see: Diego Cordovez, 'The Making of UNCTAD', *Journal of World Trade Law* (1967).

March 1968; almost four years, in fact, after the first Conference. The main reason for this postponement was that it was felt that to have held a Conference in 1967 would have been premature in view of the limited progress which had been made on the work programme set by the 1964 session.

The functions of the Conference are the broad ones of review and co-ordination of trade policies and the formulation, negotiation, and implementation of new principles and policies. Its relationship with GATT is still not settled. On the one hand, UNCTAD is given a co-ordinating function in respect of other UN institutions in the trade field. On the other, there are references to the need to avoid duplication. It has been proposed that UNCTAD and GATT should merge their technical assistance activities in the field of export promotion.

The Trade and Development Board

The 'Standing Committee' of the Conference was established as a permanent organ of the Conference, under the title of the Trade and Development Board.

The Board consists of 55 members drawn from the membership of the Conference. For the purpose of achieving an 'equitable geographical distribution' of membership while also ensuring 'continuing representation for the principal trading states', seats on the Board are allocated between four lists of countries as follows:

(a) 22 members from *List A* (African countries, including South Africa; Asian countries, excluding Japan; and Yugoslavia. There are at present 68 countries in this list).

(b) 18 members from *List B* (Western European countries, including Turkey, Cyprus, and Malta;[1] USA, Canada, Japan, Australia, New Zealand: 30 countries in all).

(c) 9 members from *List C* (Latin American and Caribbean countries, numbering 24 at present).

(d) 6 members from *List D* (USSR[2] and Eastern Europe, 9 countries).

It will be noted that Lists B and D are represented by about two-thirds of their constituents,[3] Lists A and C by about one-third. List B's seats are marginally under one-third of total Board membership. A list of Board members elected by the first Conference is shown in Table 46.

Members of the Board are elected at each session of the Conference and hold office until the next session. Members of UNCTAD who are not members of the Board may be invited to participate in the work of the Board without voting. The Board meets twice a year in normal circumstances. It has adopted its own rules of procedure, which include the election of its officers annually on a system of rotation between countries.

1. Also including the Holy See, Liechtenstein, Monaco, and San Marino.
2. Byelorussian SSR and Ukrainian SSR are counted separately.
3. Rather more than two-thirds if one excludes the 'non-States' referred to in footnotes 1 and 2.

The main function of the Board can be said to be to provide continuity to those of the Conference, when the latter is not in session. The Board may, besides reviewing the implementation of the recommendations of the Conference, initiate its own programme of studies and research. The Board is also to act as a preparatory committee for further sessions of the Conference. The Board reports on its activities to the Conference and also, annually, to the General Assembly, through ECOSOC.[1]

Table 46 UNCTAD Trade and Development Board: Members elected by the 1964 Conference

From List A (22)	From List B (18)	From List C (9)
Afghanistan	Australia	Argentina
Cameroon	Austria	Bolivia
Ceylon	Belgium	Brazil
Congo (Kinshasa)	Canada	Chile
Dahomey	Denmark	Ecuador
Ethiopia	France	El Salvador
Ghana	Germany (West)	Honduras
Guinea	Italy	Mexico
India	Japan	Uruguay
Indonesia	Netherlands	
Iran	New Zealand	
Iraq	Norway	
Lebanon	Spain	**From List D (6)**
Madagascar	Sweden	Bulgaria
Mali	Switzerland	Czechoslovakia
Morocco	Turkey	Hungary
Nigeria	UK	Poland
Pakistan	USA	Romania
Philippines		USSR
Tanzania		
UAR		
Yugoslavia		

Note: Fresh elections to the Board will take place at the 1968 session of the Conference.

Voting and Conciliation

Each member present at a session of UNCTAD has one vote. Conference decisions are taken by a two-thirds majority on matters of substance and by a simple majority on procedural matters. Board decisions are taken by a simple majority.

Formal conciliation procedures are laid down, to be put into operation,

1. ECOSOC is thus given the opportunity to transmit its comments on the Board's annual reports.

'after the debate' but 'before voting', in the event of a deadlock in the Conference or the Board.[1] Conciliation procedures are applicable only to major proposals affecting certain stated fields of policy.[2] They have not been invoked as yet.[3]

Committees of the Board

The Board is empowered to set up subsidiary committees and has in fact set up four: on Commodities, Manufactures, Shipping, and Invisibles and Financing Related to Trade. These in turn have set up sub-committees and specialist groups. In addition, the Interim Co-ordinating Committee on International Commodity Agreements (ICCICA), a UN body, has been incorporated in this structure. A diagram showing the full organisational structure of the Board is in Table 47.

Membership of the Committees is open to all UNCTAD members, irrespective of whether or not they are Board members. At present, there are about 55 members in the Committee on Commodities and about 45 in the other three main Committees. The Committees normally meet once a year. The terms of reference of the Committees are laid down by the Board. Their main function is to work out proposals in detail for submission to the Board for approval. They are the technical arms of the Board.

Secretariat

UNCTAD has a permanent Secretariat, within the UN. The Secretary-General of UNCTAD is appointed by the UN Secretary-General and the appointment is subject to confirmation by the General Assembly. The present Secretary-General is Raúl Prebisch.

The headquarters of the Secretariat is in Geneva and there is a Liaison Office in New York. A decision on the location of the Secretariat was not reached until October 1965. This delay was partly responsible for UNCTAD's slow start and hence for the late second session.

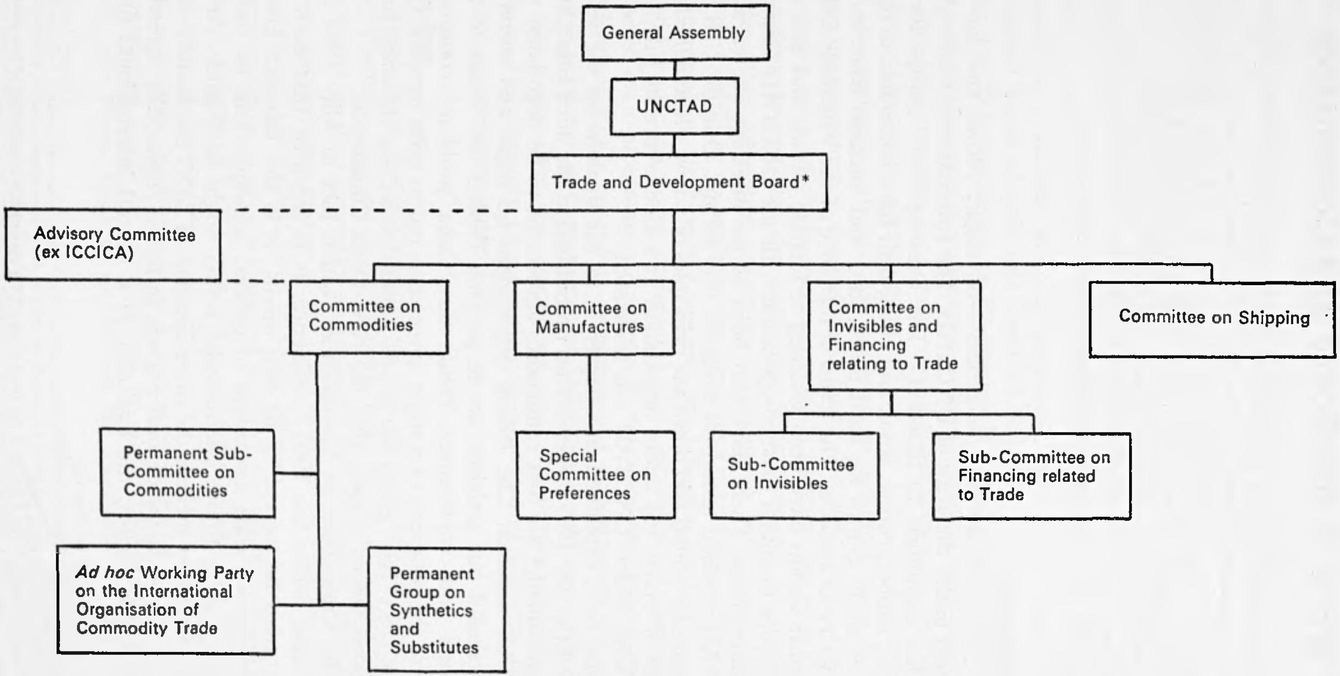
The Secretariat contains seven Divisions, including Divisions for Research, Trade Policies, Trade with Socialist Countries, Commodities, Manufactures, and Invisibles. In addition, the New York office performs the function of a Division for Financing Related to Trade.

The Secretariat provides services for the sessions of the Conference, the Board, and the various Committees. Its staff provide statistical data, studies, and background papers, on subjects laid down by the Conference and the Board.

The Secretary-General continues, between Conferences, to play an active role in initiating consultations and negotiations and is in constant touch with member governments.

1. Or the Board's Committees (see below).
2. E.g. domestic economic policies; aid, trade, monetary, and tariff policies; existing international agreements.
3. August 1967.

Table 47: Organisation of UNCTAD



Source: UNCTAD document E/CN.14/WP.1/4.

Note: *The Trade and Development Board reports to the General Assembly through ECOSOC between sessions of the Conference.

The Work of the Board and Committees

The implementation of a programme of work as extensive as that generated by the recommendations of the 1964 Conference appears a formidable prospect. Yet the Trade and Development Board and its Committees, aided by a productive Secretariat, have attempted to fulfil this task as far as possible in the last two years, when UNCTAD's machinery began to function. Instead of attempting to list here all that this task has involved, only the main points of interest have been noted.

Commodities

Three major commodity conferences[1]—on sugar, cocoa, and tin—have been held under the aegis of UNCTAD. The International Coffee Agreement has continued to function.[2] The existing study groups for lead and zinc, rubber, cotton, wool, and citrus fruit have continued to operate and new study groups for hard fibres, jute, and bananas have been set up under FAO auspices. The terms of reference of the Vegetable Oils and Fats Study Group have been widened to include all oils and fats. All of these groups maintain close co-operation with the UNCTAD Committee on Commodities. There have also been *ad hoc* meetings on tea and an UNCTAD working group on tungsten was set up. Outside UNCTAD, the Kennedy Round laid down the principles of a new wheat agreement,[3] the text of which was under negotiation at a Conference in July/August 1967, with which UNCTAD was associated.

As has been explained in Chapter 3, in the sections on the relevant commodities, the 1965 conference on tin resulted in the third International Tin Agreement,[4] the first commodity agreement to be negotiated under UNCTAD auspices. The 1965/6 negotiations on sugar and cocoa were not successful but activities are in progress behind the scenes to try to reactivate both conferences. While the 'Cuba problem' continues to influence the prospects of a sugar agreement, recent talks between Ghana and the USA[5] have given rise to new hopes that a *Cocoa Agreement* may be negotiated before or soon after the New Delhi Conference.

In the Committee on Commodities, which met in May 1967 for its last session before the 1968 Conference, it is accepted that each commodity must be treated on its own merits. It is also thought, however, that in certain fields discussions of general principles can be useful in indicating where future international action might be feasible. Areas of general discussion include the diversification of LDC commodity exports and methods of financing buffer stocks in future commodity agreements. In this latter respect, the feasibility of a central international fund to

1. And a minor one on olive oil.
2. See Chapter 3, section on Coffee.
3. See Chapter 8.
4. Effective from 30 June 1966.
5. Deadlock between the USA and the producing LDCs caused the breakdown of the 1966 Cocoa Conference. Ghana/USA talks were reported in July 1967.

finance buffer stocks has come under consideration. It is hoped that this narrowing down of the Committee's work will lead to specific policy proposals being placed before the forthcoming Conference.

Manufactures

The major development since the 1964 Conference in the field of policy on trade in manufactured goods has, of course, been the Kennedy Round of the GATT, the results of which for the LDCs have still to be fully assessed.[1]

Within UNCTAD, major progress has been made in the direction of agreement on a scheme for *tariff preferences* for LDCs. Because of the fundamental issues of principle involved for some developed countries, notably the USA, the Group on Preferences has deliberately concentrated on the technical aspects of preferences, without debating their desirability. At its July 1967 meeting, the Group studied a comprehensive and detailed plan for a preference system prepared by the UNCTAD Secretariat.[2] While the emphasis in UNCTAD has been on technical issues, there has been an improvement in the political climate for preferences. The USA, traditionally opposed to discriminatory trade policies, has now declared itself willing to consider the possibility of preferences,[3] in conjunction with the other developed countries. A group on preferences has been set up in OECD to co-ordinate the developed countries' policies in this field. Its members are France, Germany, the UK, and the USA.

In addition to discussing preferences, the Committee on Manufactures has started on a programme of surveys of industrial and export potential for individual LDCs, aimed at demonstrating opportunities for aid and technical assistance to export-oriented industries in LDCs. In this type of work, the Committee will co-operate with the newly established UN Industrial Development Organisation (UNIDO) and with the regional economic commissions of the UN.

Financing

The World Bank feasibility study on the UK/Swedish plan for *Supplementary Financial Measures* is being considered by an inter-governmental group set up by the Committee on Invisibles and Financing. Since supplementary finance may be one of the main issues at New Delhi, the World Bank scheme is described here in some detail.

Supplementary finance is designed to offset the adverse effects on the economic growth of LDCs of sudden, unforeseen falls in export income. It is a form of export insurance, tied to overall export earnings and not to any particular commodities or to any level of prices.

The scheme would be administered by an international agency, presumably the World Bank or its affiliate, the International Development

1. See Chapter 8.
2. This plan covered the same main topics as that outlined in the Prebisch Report (see Chapter 9).
3. President Johnson made such a declaration at Punta del Este, Uruguay, in April 1967. He was speaking on the occasion of the OAS declaration for a Latin American Common Market. The Latin American countries have never been included in previous preferential systems.

Association (IDA). This agency would receive advance commitments of funds for five-year periods from developed countries.

Each LDC wishing to participate would have to obtain the approval of the agency in advance for:

(a) its planned projections of export earnings;[1]

(b) a 'policy package' to be put into effect in the event of a shortfall from these projections.

If a shortfall should occur, the LDC concerned would have to satisfy the agency that:

(a) the shortfall could not be offset by domestic measures, without disrupting development policies;

(b) alternative domestic and external sources of finance had been exhausted.

If all these conditions could be met by the LDC suffering the shortfall, long-term finance on favourable terms[2] would be made available by the agency to cover part or all of the shortfall. In order to ensure speedy disbursement, the agency would have to maintain close contact with developments in the LDC. It would also review the uses to which the finance was put.

The scheme would operate over a period of five years at a time, to correspond with most countries' planning periods. Export earnings in excess of the agreed projection would be offset against shortfalls within the same period for the purpose of determining the amount of finance due. Any net excess or net shortfall at the end of the period would not be carried over into the next period.

It will be observed that a predominant characteristic of the World Bank scheme for supplementary finance is the high degree of surveillance by the agency over the preparation and implementation of the development plans of participating LDCs. Considering that the World Bank estimates that the scheme would add only \$300m–\$400m p.a. to the net flow of aid to LDCs, it is not surprising that some of the latter have felt that the 'interference' involved would be an excessive price to pay in return.[3] However, World Bank surveillance might be advantageous to participating LDCs in that it would be taken to indicate the Bank's approval of their development plans and thus make them more 'aid-worthy'.

Among several other subjects related to financing considered by the Committee on Invisibles and Financing were:

(1) A report of an Expert Group on International Monetary Issues, which proposed that additional international liquidity should be introduced into the world economy by the creation of an IMF currency reserve unit and that the currencies paid into the reserve fund should be lent to the LDCs through the IBRD.[4]

1. This would be tantamount to submitting the entire development plan for approval.
2. E.g. long-term IDA-type loans for 50 years at a nominal service charge.
3. This is a variant on the well known 'Stamp Plan'.
4. Yet, despite the degree of World Bank discretion involved, some developed countries have felt that the scheme is too automatic, and Germany has proposed an alternative scheme.

(2) The 'Horowitz' Proposal'[1] for an interest equalisation fund. This proposal seeks to increase the flow of capital to LDCs without straining developed countries budgets. The scheme envisages that:

(a) IDA would borrow funds on commercial terms by public issues of securities, guaranteed by the governments of developed countries;

(b) IDA would lend these funds to LDCs on 'soft' terms;

(c) any differential between these terms and IDA's debt servicing costs would be met out of an 'interest equalisation fund' to which developed countries would contribute. The developed countries' governments would thus only pay out a subsidy on the interest rate paid by IDA to its bond holders.

The IBRD submitted a feasibility report on the Horowitz Proposal on the basis of IDA borrowings of $300m p.a. However, the plan was shelved after a group of experts suggested that the international financial climate was unfavourable for an increase in IDA borrowing.

At its meeting in April, 1967, the Committee on Invisibles and Financing drew up, without dissent, an Agreed Statement on the main problems in the field of development. This Statement stresses, *inter alia*, the need for an increase in the volume of aid; for softening and harmonising the terms of aid; and for an investigation into the effects of aid tying. The Statement will probably be a background for discussion of financing matters at the Second Conference.

Invisibles

Work on invisibles has taken place mainly in the field of shipping. Shipping, like insurance and tourism, is a relatively new entrant into the sphere of inter-governmental discussion of development problems.[2] Priority is, therefore, being given to a programme of work in the UNCTAD Secretariat to build up the background knowledge necessary before a start can be made on discussing practical policy proposals. In particular, the Secretariat is attempting to fill the void in public information on methods used in determining freight rates and to propose criteria for the development of merchant marines by LDCs.

The Board

The Trade and Development Board has received reports on the work of all the Committees. In its fourth session (August-September 1966) it carried out a review of the implementation of the recommendations of the 1964 Conference. This review paid particular attention to the levelling off of capital flows to LDCs in the mid-1960s, which reduced the LDCs' import capacity and has given rise to serious debt servicing problems.

1. David Horowitz, Governor of the Bank of Israel, was its originator.
2. Though technical aspects of shipping are discussed in the Inter-governmental Maritime Consultative Organisation (a UN Specialised Agency).

The Board has more recently been dealing with preparations for the 1968 Conference and considering items for inclusion in the agenda of the Conference. The Board has declared its intention that the second Conference should concentrate on 'fundamental objectives and specific goals' and aim at achieving practical results. The draft provisional agenda does list several specific items. On the other hand, it also includes several broad headings which could sidetrack the Conference into discussing generalities.

The Board's fifth session was held in August-September 1967 and a sixth session may be held before the New Delhi Conference.

Prospects for New Delhi

The foregoing resumé of the work of the UNCTAD Board and Committees indicates which might be the main concrete proposals in the trade field to come before the 1968 Conference. To summarise, these are:

(a) a Cocoa Agreement;
(b) a scheme for tariff preferences for LDCs;
(c) a scheme for supplementary financial measures.

These three proposals have reached a sufficiently advanced stage for a final decision early in 1968 to be well within the bounds of expectation.[1] In addition, the Conference might reach decisions on some main principles of commodity policy, particularly in respect of buffer stock operation and financing, and will be discussing proposals to increase the volume and soften and harmonise the terms of aid.

If the New Delhi Conference is to be a success, both the LDCs and the developed countries will have to arrive at certain basic decisions. The LDCs must accept, firstly, that the resolutions of the 1964 UNCTAD do not provide automatic solutions to their problems and that there is still room for negotiation and manoeuvre. Secondly, they must agree among themselves upon a feasible order of priorities to prevent the Conference becoming too generalised. The developed countries, for their part, must go to New Delhi with the political will to seek out and implement practicable solutions to the problems of the LDCs.

If these are the essentials of success, it is not difficult to conceive of the next UNCTAD Conference being a disappointment. For one thing, the cohesion of the LDCs has suffered somewhat in the inter-Conference period and will have to be restored if agreement on priorities is to be reached.[2] It would be wise, therefore, not to expect too much of the

1. A Cocoa Agreement would, of course, have to be negotiated before or after the Conference proper.
2. LDC members of UNCTAD will be holding a preliminary meeting in Algiers which will provide an opportunity to agree on priorities for New Delhi. The developed and centrally planned groups will also be holding preliminary meetings.

Conference nor to define in advance narrow criteria of success and failure. It should be remembered that the Conference is only an early stage in an evolutionary process. It is important above all else that, whatever the result of the Conference, this process should be allowed to continue.

Appendix E (Table 48)

Table 48 **Concentration of African* Exports by Country 1963**

Country	Value of total exports (in US $ million)	Proportion of total exports accounted for by the leading export (%)	Commodities accounting for at least (a) 50% of export values†		(b) 90% of export values
Angola	164·5	*40·1*	Coffee & diamonds	*(56·3)*	Sisal, diamonds, coffee, iron ore, maize, palm oil, fish, crude petroleum, wood, cotton, coconuts, manioc, sugar, beans
Cameroon	118·0	*32·2*	Coffee & cocoa	*(52·4)*	Coffee, cocoa, *aluminium*, *cotton*, *oils and oilseeds*, wood and fruits
Central African Rep.	22·0	*48·4*	Diamonds, cotton	*(73·5)*	Cotton, diamonds, coffee, rubber
Chad	22·7	*77·0*	Cotton	*(77·0)*	Cotton, live animals, meat
Congo (Brazzaville)	41·9	*46·3*	Diamonds, wood	*(70·5)*	
Congo (Kinshasa)	324·4	*42·8*	Copper, diamonds	*(51·7)*	Copper, diamonds, coffee, rubber, non-ferrous ores, palm oil, palm kernel oil, zinc and alloys, cobalt
Dahomey	12·8	*63·5*	Oilseeds & nuts	*(63·5)*	Oilseeds & nuts, palm oil, cotton, coffee, beverages and tobacco, fish
Ethiopia	89·9	*50·5*	Coffee	*(50·5)*	Coffee, hides & skins, oilseeds & kernels, fruits & vegetables, leaves, fodder, sugar
Gabon	73·2	*40·0*	Saw & veneer logs & manganese	*(58·8)*	Saw & veneer logs, manganese, petroleum, uranium & thorium & plywood
Gambia	8·7	*95·5*	Groundnuts	*(95·5)*	Groundnuts
Ghana	273·3	*73·5*	Cocoa	*(73·5)*	Cocoa & wood
Guinea	55·1	*59·8*	*Aluminium crude*	*(59·8)*	*Aluminium crude*, *bananas*, palm nuts & kernels, coffee, iron ore, diamonds
Ivory Coast	230·3	*43·1*	Coffee & cocoa	*(62·9)*	Coffee, cocoa, wood & fruits & vegetables
Kenya	142·7	*25·2*	Coffee, tea, & veg. fibres	*(55·5)*	Coffee, tea, vegetable fibres, pyrethrum, meat & meat prep., *cereals*, *chemicals*, *fruits*, vegetables, sodium carbonate, butter, hides & skins, oilseeds & nuts
Liberia	81·0	*47·9*	Iron ore & rubber	*(85·8)*	Iron ore, rubber, stones, diamonds
Libya	377·6	*98·7*	Petroleum	*(98·7)*	Petroleum
Madagascar	82·1	*29·0*	Coffee, sugar & honey, sisal, spices	*(57·0)*	Coffee, sisal, spices, sugar & honey, rice, tobacco, vegetables, oilseeds & nuts, live animals & meat, hides & skins, crude vegetable and essential oils, tapioca & sago, fodder, natural graphite
Mali	33·8	*39·3*	Groundnuts & fish	*(57·9)*	Groundnuts, fish, live animals, cotton, fruits & vegetables, hides & skins

Mauretania	16·1	*95·3*	Iron ore	*(95·3)*	Iron ore
Mauritius (1962)	60·7	*97·9*	Sugar	*(97·9)*	Sugar
Morocco (1961)	342·6	*24·2*	Fruits & veg., phosphates & non-ferrous ores & concentrates	*(57·0)*	
Mozambique	100·7	*18·1*	Cotton, cashew nuts, sugar, sisal	*(54·5)*	
Nigeria	517·4	*33·5*	Oilseeds, nuts & kernels, cocoa beans	*(51·0)*	Oilseeds, nuts & kernels, cocoa beans, petroleum (crude), rubber, wood, vegetable oils, cotton, tin & alloys, hides & skins
Niger	27·4	*66·2*	Groundnuts	*(66·2)*	Groundnuts, live animals, vegetables & groundnut oil
Réunion	38·1	*84·3*	Sugar & honey	*(84·3)*	Sugar & honey, essential oils
Senegal	110·5	*35·3*	Groundnut oil, oilseeds & nuts	*(67·7)*	Groundnut oil, oilseeds & nuts, oilseed cake & meal, fish & preparations, wheat meal & flour, metal containers
Sierra Leone	81·1	*63·5*	Diamonds	*(63·5)*	Diamonds, iron ore, palm kernels
Somalia	31·8	*44·7*	Fruits & veg., live animals	*(80·6)*	Fruits & vegetables, live animals, hides & skins, wood, charcoal
Sudan	225·9	*59·5*	Cotton	*(59·5)*	Cotton, oilseeds & nuts, crude vegetable materials, fodder
Tanzania (a) Tanganyika	178·8	*36·4*	Sisal & cotton	*(53·6)*	Sisal, cotton, coffee, diamonds, fruits & vegetables, oilseeds & nuts, meat, canned, fodder & tea
(b) Zanzibar	14·4	*71·3*	Cloves	*(71·3)*	Cloves, copra, coir, clove oil
Togo	18·3	*26·1*	Cocoa, phosphates, coffee	*(67·6)*	Cocoa, phosphates, coffee, oilseeds & nuts & cotton
Tunisia	125·2	*19·3*	Wine, veg. oils & phosphates	*(52·5)*	Wine, vegetable oils, phosphates, fruits & vegetables, cereals & preparations, chemicals, crude animal & vegetable materials, metalliferous ores & scraps, non-ferrous metals, & fodder
Uganda	152·6	*52·8*	Coffee	*(52·8)*	Coffee, cotton, copper, & tea
UAR	521·6	*53·3*	Cotton	*(53·3)*	Cotton, textile yarn fabrics, mineral fuels & lubricants, rice, vegetables, sugar, printed matter, lime & cement
Upper Volta	9·3	*55·5*	Live animals	*(55·5)*	Live animals, oilseeds & nuts, hides & skins, cotton, textile yarn & fabric, non-ferrous ores & concentrates, vegetables, vegetable oils & fats, fruits, beverages & tobacco & meat
Zambia (1964)	457·5	*91·3*	Copper	*(91·3)*	Copper

Notes: *Excluding Algeria, Burundi, Rhodesia, Rwanda, South Africa.
†The figures in brackets indicate the percentage accounted for by the commodities listed under the first heading (viz. 50% of exports).

Source: Table reprinted from *The Relevance of UNCTAD to Africa's Trade Problems* (E/CN.14/WP.1/4).

Glossary of Terms

(This glossary is by no means comprehensive. It explains some of the technical terms which appear in this handbook and in discussion on trade in general. The terms are grouped under convenient headings since it is usually easier to explain them in relation to each other. A list of abbreviations is given separately at the beginning of this book).

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Product Definition

Standard International Trade Classification (SITC): The SITC, as revised in 1960, is a system of classifying products entering international trade for statistical purposes. It is the basis of the UN and GATT statistics quoted in this book.

The SITC consists of a list of product definitions grouped in ten main sections, numbered 0 to 9. Each main section is broken down into divisions, sub-divisions, and 'sub-sub-divisions', each successive stage being more detailed than the preceding one from which it is derived. Each stage is denoted by the addition of a digit to the code number. Thus, the most detailed definitions (the 'sub-sub-divisions') bear four digit code numbers, the first digit being that of the section to which they belong. The ten main sections of the SITC are listed below, with examples of the degrees of division.

SITC Code	Designation	Main Contents of Section
Section 0	**Food and live animals**	livestock, meat, fish, cereals, dairy, horticultural, and tropical products, sugar and animal-fodder; incl. preparations of the above.

Division 07	Coffee, tea, cocoa, spices, and manufactures thereof.	
071	Coffee.	
071.1	Coffee, raw.	
071.2	Coffee, roasted.	
etc.		
072	Cocoa.	
etc.		
Section 1	**Beverages and tobacco**	alcoholic and non-alcoholic beverages, tobacco, incl. manufactured tobacco.
Section 2	**Crude materials, inedible, excluding fuels**	hides and skins, oilseeds, rubber, wood and pulp, vegetable and synthetic fibres, crude minerals, metalliferous ores; incl. scrap and waste materials.
Division 22	Oilseeds, nuts and kernels	
Section 3	**Mineral fuels, lubricants, and related materials**	coal, petroleum, petroleum products, natural and manufactured gas.
Section 4	**Animal and vegetable oils and fats**	crude, refined, and processed oils, fats, and waxes.
Section 5	**Chemicals**	chemical elements and compounds, petrochemicals, dyes and paints, pharmaceutical and toilet products, soap and detergents, fertilisers, explosives, plastics, adhesives, etc.
Section 6	**Manufactured goods classified chiefly by material**	basic manufactures of leather, rubber, wood, paper, textiles (e.g. thread, yarn, cloth, floor coverings, cord, rope, etc.), cement, glass, ceramics, precious stones and metals, ferrous and non-ferrous base metals (e.g. plate, sheet, strip, piping, wire, bars, forgings, pressings, etc.)

Division 65	Textile yarn, fabrics, made-up articles and related products.	
Section 7	**Machinery and transport equipment**	electrical and non-electrical machinery, rail and road vehicles, planes, ships and boats.
Division 73	Transport equipment.	
732	Road motor vehicles.	
732.1	Passenger motor cars, new.	
Section 8	**Miscellaneous manufactured articles, n.e.s.**[1]	fixtures and fittings, travel goods, clothing, footwear, scientific instruments, cameras, watches, toys, books, etc.
Section 9	**Miscellaneous transactions and commodities, n.e.s.**[1]	postal packages, pets, armaments, coin, gold (not monetary).

For statistical convenience, primary commodities are taken to comprise SITC sections 0 to 4, although these Sections include several processed and manufactured products (e.g. processed foods, cigarettes, synthetic fibres, and petroleum products). Primary commodities are often referred to under three headings as follows:

Food: SITC 0+ 1+ 4 +22
Raw materials: SITC 2, less 22
Fuels: SITC 3

Occasionally, however, SITC 4 and 22 (oils and oilseeds) are treated as raw materials.

Manufactures and semi-manufactures are covered by Sections 5 to 8, of which capital goods are covered by Section 7 (less passenger motor cars and cycles).

Brussels Tariff Nomenclature (BTN): The BTN is a system of classifying goods for the purpose of customs tariffs. It was drawn up in 1955 and is now used by several countries, including the UK. The BTN consists of 99 chapters grouped in sections numbered I to XXI. Each chapter is divided into various headings, numbered consecutively, and the headings may be further sub-divided alphabetically as follows:

Chapter 9 : Coffee, tea, maté, and spices
09.01 : Coffee, whether or not roasted or freed of caffeine, etc.

1. Not elsewhere specified.

(A) Raw coffee
(B) Roasted (including ground)
(C) Other

09.02 : Tea

etc.

Other examples of BTN headings are given in Table 36. The BTN has a different structure and function from the SITC (q.v.) but the definitions in the two classifications are to a large extent interchangeable. A BTN chapter corresponds in coverage to a SITC Division.

Invisible items: 'Invisibles' are international receipts and payments on current account, not in respect of goods, i.e. service transactions. They appear in balance of payment statistics, separately from transactions in goods, but are usually excluded from trade statistics,[1] despite their importance in value terms. Typical invisible items in international accounts are:

insurance (life, marine, and general);
interest on capital (private and official);
land, sea, and air freight;
passenger transport;
tourist expenditure;
government current expenditure overseas (e.g. diplomatic and military);
gifts and remittances (e.g. to and from migrants).

Volume of trade

Long ton= 2,240 lb. = 1,016 kilograms.
Short ton= 2,000 lb. = 907 kilograms.
Metric ton= 2,205 lb. = 1,000 kilograms.
Shipping ton=40 cubic feet. Also known as a measurement ton. Some freight rates for sea and air transport are quoted at so much 'per ton weight/measurement, whichever is the greater'. (E.g. a cargo weighing one ton but measuring 80 cu. ft. would be charged freight on two tons on the basis of the above quotation.)
Crude oil: barrel=35 imperial gallons=0·135 long tons (average).
Coffee: bag=60 kilograms.
Cotton: bale=278 lb. net.

Valuation of trade

Goods entering international trade may be valued at several points in transit, e.g.
F.a.s. (free alongside): Cost delivered to quayside but not loaded. Cane sugar is quoted f.a.s. Cuba.

1. But see note on c.i.f. below.

F.o.b. (free on board): F.a.s. cost plus cost of loading on to vessel (or aircraft). Also **f.o.r. (free on rail).** F.o.b. valuation takes place at the point at which the goods theoretically leave the country of origin, viz. in the case of shipped goods, as they cross the 'ship's side' during loading. Exports are normally valued f.o.b.

C.i.f. (Cost, insurance, freight): F.o.b. cost plus the 'invisible' costs of transit insurance and freight, but excluding unloading charges, customs duties, etc. C.i.f. valuation takes place at the point at which the goods theoretically enter the country of destination, viz. at 'ship's side' during unloading. Imports are normally valued c.i.f. in national accounts and for the purpose of charging duties.[1] However, international trade statistics are usually based on f.o.b. values and do not take account of any invisible items.[2]

Valuation of imports c.i.f. tends to overstate the balance of payments cost of imports to the extent that goods are insured and shipped with companies based in the importing country. In British trade accounts, for example, a large part of the insurance and freight element of imports appears separately as invisible earnings for British insurance and shipping companies.

Landed cost: C.i.f. cost plus cost of unloading and clearance, but excluding customs duties.

ASP (American Selling Price): ASP refers to the US practice of assessing import duty on certain products not on declared value (c.i.f. or otherwise) but on the domestic selling price of equivalent US products, thus making the imported products uncompetitive in the US market. ASP was an issue in the Kennedy Round.[3]

Import Duties

Tariff: A tariff is a classified list of customs duties, especially import duties, each rate of duty applying to a particular product category in the classification (see **Brussels Tariff Nomenclature**).[4] The term is often used loosely to refer to a rate or rates of duty (e.g. 'the tariff on cars is 24%'; 'Britain has reduced its tariffs').

Import duties: Import duties are charges on imported goods levied by the government (through its customs administration) on the importer at point of importation. They represent a transfer of revenue from the importer to the government. They do *not* add to the cost of imports in the balance of payments. Import duties may be imposed for three reasons: to protect domestic producers, to discriminate between foreign producers, and to raise revenue.

1. See note on ASP below.
2. See Tables 2, 3, and 4.
3. See p. 151 footnote 1.
4. See p. 193.

Protective duties: The primary object of a protective duty on a class of product is to give domestic products a cost advantage over imported products, by compulsorily raising the cost of the latter on importation. The protection thus afforded allows inefficient domestic producers to remain in the market and competitive domestic producers to make additional profits and/or pay higher wages. Protective duties cannot be relied upon as sources of revenue since they are designed to limit the flow of imports on which revenue can be raised.

Nominal and effective protection: The effect of a protective duty may be measured in two ways: as a rise in the market price of an imported product or as an increase in the production costs of a foreign supplier. The former is known as **nominal** protection, since it corresponds to the nominal rate of import duty (e.g. a 10% duty raises the price of imports by 10%). The latter is referred to as **effective** protection and measures the duty in relation to the *value added* in processing by a foreign producer (*not* in relation to the price of the product). When measured by this latter method, the deterrent effect on imports of a protective duty is often greater than it may seem *prima facie.* This is explained in Chapter 4, pp. 81–83.

Preferential duties: When certain foreign countries are granted a rebate on, or exempted from, protective duties, the lower (or nil) rates charged on goods from these countries are known as preferential duties.[1] In such cases, the level of a protective duty may, in theory, be set with the specific purpose of maintaining a certain margin of preference, i.e. of protecting producers in preferred countries, as well as domestic producers. However, such cases usually arise only when the product in question is not available domestically.[2] When domestic production exists, it is normally the needs of domestic producers which determine the level of protection, with the margin of preference being a residual factor.

Margin of preference: The margin of preference on any product is expressed as the *absolute* difference between the normal **m-f-n** rate of duty (q.v.)[3] and the preferential rate; *not* as the proportionate difference. (E.g. with a m-f-n duty rate of 30% and a preferential rate of 20%, the margin of preference is 10%—*not* 33⅓% or 50%).

Revenue duties: The object of this type of duty is to raise revenue for the government. They are usually set at rates which are very high in relation to the actual cost of the products affected and are levied on both imported and domestic products. However, they may be chargeable at varying rates so as to favour domestic and/or preferential producers.[4] Revenue duties are often raised on 'luxury' goods and are responsible

1. Cf. UK duties on Commonwealth and EFTA goods.
2. Cf. UK and EEC import duties on tropical commodities.
3. See p. 198.
4. Cf. UK revenue duties, see p. 89.

in such cases for the artificially high prices of such goods (e.g. petrol, tobacco, wines and spirits, perfumes, tropical commodities).

Ad valorem duties: Import duties may be charged on the value of imported goods or their volume. Duties charged on value are known as *ad valorem* duties and are usually expressed as a percentage rate to be applied to the declared value of imported goods (normally the **c.i.f.** value—q.v.),[1] *Ad valorem* duties are widely used as protective duties in developed country tariffs. An *ad valorem* duty gives protected producers a fixed price advantage, in relative terms, whatever the price of imports. However, it is not an absolute deterrent to price competition from imports, since the amount of duty levied falls as import prices fall.

Specific duties: Specific duties are charged as a fixed amount of currency per unit of volume (e.g. weight, liquid, cubic, or square measurement). The amount of duty levied per unit remains the same despite any variations in the unit price of imports. Thus, the incidence of a specific duty increases as prices fall and diminishes as they rise. A specific duty is an absolute obstacle to imports which cannot be evaded by price cutting. Because of the regularity of returns from specific duties, they are often used as revenue duties.

Alternative duties: An alternative duty consists of an *ad valorem* rate and a specific rate, quoted together as alternatives, the higher duty being applied as the case may be. (E.g. with an alternative duty of 20% *ad valorem* and £1 per ton specific, the *ad valorem* rate would be applied to an import price of £6 per ton and the specific rate to a price of £4 per ton.) Since the amount of *ad valorem* duty falls as prices fall, the effect of an alternative duty is to set a lower limit to the amount of duty collected when prices are falling.

Compound duties: A compound duty consists of an *ad valorem* rate and a specific rate applied simultaneously to an imported product.[2]

Duty averages: (**nominal'** or **'effective'**—q.v.).[3] It is possible to calculate averages of duties on a group of products in a tariff or of the tariff as a whole or of margins of preference. For this purpose, specific, alternative, and compound duties are converted to *ad valorem* equivalents at current import prices. An average may be a simple, unweighted average of all duty rates;[4] the disadvantage of this method is that it gives equal importance to all tariff items, whereas in fact their importance both to the country in question and to its trading partners tends to vary consider-

1. But they may be charged on f.o.b. values or on other methods of valuation (e.g. **ASP** —q.v.).
2. E.g. the duty on man-made fibre textiles in Table 36.
3. See p. 196.
4. As in Table 40.

ably. Alternatively, an average may be weighted by the value of imports under each tariff item;[1] the disadvantage of this method is that it gives too much weight to low rates of duty, which admit imports freely, and too little to high duty rates, which deter imports. Neither method is satisfactory and weighting by the value of consumption in the importing country, which would be a better method, is not usually feasible because of the lack of the necessary data.

M-f-n rate of duty: Since the mid-19th century, countries have been entering into bilateral and multilateral trade agreements incorporating a 'most-favoured-nation' (m-f-n) clause. The GATT is the most notable example of a m-f-n agreement.[2] The m-f-n clause in a trade agreement binds each party to the agreement to treat imports from any other party at least as favourably as imports from any country outside the agreement. The m-f-n clause applies to import duties and other import regulations and also to export duties. Thus, the rate of import duty applied by a country to imports from other countries with which it has m-f-n agreements is known as its **m-f-n rate** and the list of all its m-f-n duties as its m-f-n tariff.

Despite its name, a m-f-n duty is not always the lowest rate of duty, since some m-f-n agreements allow signatories to grant preferential rates of duty, below the m-f-n rate, which may not apply to all other signatories of the agreement (cf. the GATT and preferences).

General rate of duty: 'General rate' is the name usually given to a rate of duty above the m-f-n rate which is applied to imports not covered by m-f-n agreements. Now that the m-f-n clause of the GATT covers the bulk of world trade, most major trading countries have ceased to apply duties above the m-f-n rate but general rates are retained by some LDCs.

Tariff columns: Each list of duties in a tariff is referred to as a column. A non-discriminatory tariff, with the same rates of duty applied to imports from all sources, is thus a single-column tariff. A tariff containing general and m-f-n rates is a two-column tariff and so on. Until recently, the UK had a three-column tariff, consisting of a full (m-f-n) rate and two preferential rates (Commonwealth Preference and EFTA). The latter two rates are now shown in the same column, so that only two columns remain.

Variable levies: A variable levy is a form of duty which is not charged at a pre-determined rate but at whatever rate is necessary to ensure that the duty-paid price of the dutiable product reaches a specified minimum level. Variable levies on imports play an important part in the Common Agricultural Policy of the EEC[3] and are also used by the UK to regulate the price of cereal imports.

1. As in the calculations of Commonwealth Preference on p. 91.
2. See Chapter 7, especially the section on the m-f-n clause, p. 132.
3. See Chapter 6, p. 111.

Non-tariff Barriers to Trade[1]

Import licensing: Goods of a certain type or from a certain country (or both) may be subject to import licensing. This means that an importer must obtain a licence from the relevant authority before being allowed to clear his goods through customs.

Import licensing provides an opportunity to keep a check on imports thought likely to affect public security, health, or morals. It may also be used to regulate the volume of imports, by making the issue of licences subject to a maximum limit.

Import quotas: When import licences are subject to a limit, the limit is commonly known as a quota. Quotas are the most widely used form of non-tariff barrier to trade. Quotas which apply to goods from specified countries of origin are known as *bilateral* quotas; when applied to imports from all sources, they are called *global* quotas.

Minimum quotas: In the normal sense of the term, a quota is a restrictive limit on the volume of imports. However, a bilateral quota may be set to ensure a minimum quantity of imports from the supplying country concerned, especially if the country happens to be an inefficient supplier.[2] Quotas may also be used to discriminate in *favour* of certain suppliers by restricting imports from others.[3]

Institutional Terminology

Dumping (GATT): The practice of selling exports at prices below those prevailing in the domestic market of the exporting country. Dumping may be offset by **anti-dumping duties.** (See Chapter 7.)

Market disruption (GATT): A sharp increase, or potential increase, in imports, at prices below those prevailing in the importing country, which causes, or threatens to cause, damage to producers in the importing country. Market disruption provides grounds under the GATT for the imposition of import quotas (see Chapter 8, p. 147).

Preferential area (GATT): A group of countries which grant each other preferential tariff treatment (e.g. the Commonwealth Preference Area).

Free trade area (GATT): A preferential area which provides for the eventual *elimination* of import duties on 'substantially all trade' between members (e.g. EFTA). As defined by the GATT, a free trade area need

1. The following examples are not comprehensive.
2. The function of protecting less efficient suppliers (e.g. India) against more efficient ones (e.g. Hong Kong) is ascribed to the UK import quotas on cotton goods.
3. Cf. Italian quotas on bananas; UK quotas on bananas, cigars, rum.

not eliminate duties on goods not already traded between members (cf. LAFTA). (See Chapter 7).

Customs union (GATT): A free trade area involving complete internal duty elimination which also provides that members should adopt a common external tariff on trade with non-members (e.g. CACM) (see Chapter 7).

Economic union: A customs union which also provides for the free internal movement of labour, firms, and capital and for the harmonisation of policies in such sectors as industry, agriculture, trade, and energy transport (e.g. the EEC). Also referred to as a **Common Market.** Neither term is defined by the GATT and interpretations may vary in theory and in practice.

Payments union: A group of countries operating a common 'clearing house', through which their mutual monetary transactions are cleared (e.g. the former European Payments Union).

Monetary union: A group of countries with a common currency and a common monetary policy (e.g. East Africa before 1966).

Supplementary finance (UNCTAD): A proposal to provide long-term finance, on 'soft' terms, to offset unforeseen shortfalls in the export earnings of LDCs, which threaten to disrupt their development plans. (See Chapter 10, p. 183.)

Compensatory finance (UNCTAD): A proposal to provide grant aid to offset deteriorations in the terms of trade of LDCs (see Chapter 9).

Compensatory credits (IMF): A scheme which provides automatic drawing rights on the IMF to LDCs experiencing unforeseen shortfalls in export earnings. (Short-term supplementary finance.)

Economic Terminology

Terms of trade: The ratio between a country's export prices and its import prices, i.e. $\dfrac{\text{export price index}}{\text{import price index.}}$

This ratio represents the purchasing power of a unit of exports over imports. If export prices rise faster (or fall more slowly) than import prices, the purchasing power of exports improves. If import prices rise faster (or fall more slowly) than export prices, the purchasing power of exports deteriorates. 'Terms of trade' can also refer to the price ratio between different groups of commodities. (See Chapter 9, p. 157–8 and Appendix D.)

Balance of trade: The balance between the value of exports and the value of imports in national accounts. An excess of imports is a trade deficit and an excess of exports a trade surplus. The *balance* of trade may be improved by a deterioration in the *terms* of trade, since the change in price ratios implicit in the latter may increase exports and/or reduce imports.

Price elasticity of demand: The degree of reaction of demand for a product (or products) to a change in price. Demand is normally expected to vary in the opposite direction to price. Demand for a product may be of:

Unitary elasticity: When a change in price, in either direction, is fully offset by a proportionately equal change in demand in the opposite direction, so that revenue remains the same.

Elasticity more than unity:[1] When a change in price produces a proportionately *smaller* change in demand in the opposite direction. Thus, a rise in price increases revenue and a fall decreases revenue. In such case, demand is said to be **inelastic.**

Elasticity more than unity: When a change in price produces a proportionately *greater* change in demand in the opposite direction. In this case, demand is said to be *elastic;* a rise in price reduces revenue and a fall increases it.

Elasticity of demand for a product may vary with shifts in taste and at different price levels.

Price elasticity of supply: The counterpart of the above, though not such a useful concept, since it does not indicate changes in revenue. Supply of a product is perfectly *inelastic* when a fixed quantity of that product is offered for sale, whatever the market price.

Supply is perfectly *elastic* when a marginal change of price will produce an infinite reaction in supply, viz. to zero in the case of a reduction in price and to infinity in the case of a rise. Neither of these extremes occurs in practice. However, all products tend towards inelasticity of supply in the short term and towards elasticity in the long term. Obvious cases of short-term inelasticity occur with perishable goods and tree crops.

Income elasticity of demand: The reaction of demand for a product (or products) to a change in income. Demand is normally expected to vary in the same direction as income. If expenditure on a product rises or falls at a faster rate than income, demand is said to be *income elastic.* If demand varies at a slower rate than income it is *income inelastic.* When incomes are rising, income elasticity of demand for a product implies that expenditure on that product takes up a rising share of income and income inelasticity implies a falling share. The reverse applies when incomes are falling.

Income elasticity of demand may vary at different income levels. For example, demand for basic foodstuffs is probably income elastic at low levels of income and inelastic at high levels.

Trade creation and diversion: These terms refer to the effects of preferential areas, free trade areas, and customs unions on the pattern of trade. When the exchange of tariff concessions between members of such a grouping results in shifts of production from less efficient producers to more efficient ones *within* the group, this is known as **trade creation.** Trade creation increases productivity (and hence incomes) within the group without harming the trade of non-members. If anything, the rise in incomes caused by trade creation may lead to an increase in imports from non-members.

However, when the exchange of tariff concessions results in shifts of production from more efficient producers *outside* the group to less efficient producers *within* it, this is **trade diversion.** Trade diversion benefits members of the group at the expense of non-members.

Trade creation and diversion are usually present together in any arrangement involving discriminatory tariff reductions and any judgement on the benefits of such an arrangement is usually based on an assessment of the balance between the two effects.

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