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NOTE ON UNCTAD II AND ITS CONSEQUENCES FOR AFRICA

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## INTRODUCTION

1. The first session of UNCTAD was widely thought to have laid down a number of important new principles on the basis of which detailed measures for a new international economic system could be worked out. These measures would be designed to change the traditional system of international trade which held so many disadvantages for the developing countries and to increase the flow of international financial assistance for the purpose of accelerating the progress of these countries. The period between the first and the Second Sessions was supposed to have been devoted to elaborating these measures.

2. Before the Second Session a series of consultative discussions were held both in UNCTAD as a whole and among various groups of developed and developing countries. In particular, in the Charter of Algiers the developing countries attempted to identify a number of measures on which they considered that the preparatory work had yielded sufficient results for final decisions to be taken at the Second UNCTAD.<sup>1/</sup> The Algiers Ministerial Meeting had been preceded by regional meetings of the developing countries of Africa<sup>2/</sup>, Asia and Latin America. Ministers and Vice-Ministers of Foreign Trade of the countries members of the Council for Mutual Economic Assistance met in November 1967 in connexion with the preparations for the Conference, while a Ministerial Meeting of the Organization for Economic Co-operation and Development took place in December 1967.

3. The Second Session was meeting in circumstances rather different from those of the first session. At the time of the first conference the economies of the major industrial centres were booming; and exports of primary commodities appeared in general to be increasing at satisfactory rates. At the time of the Second Conference the international economic climate had changed. Balance of payments difficulties, and a growing shortage of reserves of major world currencies, had created problems for the world monetary system; while the rate of growth of the exports of the developing countries had slackened.

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1/ TD/38 and add.1

2/ Thirty-one African countries met in Algiers from 7 to 15 October 1967 and adopted the African Declaration of Algiers (E/CN.14/UNCTAD II/PM.2/Rev.2).

4. In the event there were very few subjects on which the second session of UNCTAD agreed upon specific measures to be implemented by the international community. The result has been that the second UNCTAD has been widely adjudged a failure. This position however, is not an adequate response to the post-UNCTAD situation. In the first place, the session itself could only have ratified specific decisions if these had already been worked out and agreed in detail in advance of the Conference. In the absence of such specific proposals the Conference could only elicit declarations of intent, and possibly some firm commitments to act within given periods after the Conference, on most subjects. Secondly, the Conference did recognize in many fields the general shape of the solutions that were required, and requested the continuing machinery of UNCTAD to produce detailed proposals. Therefore, the question that arises in each case is whether the principles for future action that were adopted are sufficient to ensure that proposed solutions based on them can be readily worked out; what will be the occasions on which these solutions will be elaborated; how effectively African countries can participate in order to ensure that their interests are catered for; and what steps are required to ensure that the proposed measures will be implemented.

5. This paper presents in broad lines a number of the leading subjects of interest to African countries, briefly sets out some of the circumstances which will govern the process of working out solutions to them, and proposes various steps that African countries might take to secure the desired solutions. In the coming months particular attention will have to be paid by African countries to the working of the rather complex system of UNCTAD institutions. Given the relative degrees of internal organization of the different groups of governments which will participate in these deliberations it could quite easily happen that the interests of African countries are not reflected sufficiently in the solutions that are proposed.

- ~~6.~~ This phase of the work of UNCTAD has also suggested the need for a change in the mode of operation of the UNCTAD machinery, with greater emphasis on consultations and the classical type of silent diplomacy. The African region is on the whole less well placed to participate in, and benefit from, this method of work than other regions. Partly for the above reasons, it would be incorrect to adopt attitudes which would diminish the impact of the third UNCTAD when it is held. For it is in the context of public international discussion of these issues that African countries could hope to obtain the greatest response to their interests and the needs of their development.
7. It is clear that from the point of view of the African countries the second UNCTAD did not direct its work to the different subjects sufficiently in proportion to their material interests. The most striking example was the extreme concentration on the proposed system of general preferences as against the rather superficial treatment of the problems of primary commodities which are of far greater importance. In the field of aid there is a distinct possibility that progress on the measures to make it possible for African countries to absorb external financing may not be as rapid as progress on other aspects. And already some subjects, such as the problems of the least developed and the landlocked countries, which are of special interest in Africa are dropping to a low position on the agenda for international action.
8. There is a widespread impression that international solidarity, and the movement of opinion in favour of concerted action designed to accelerate the progress of the developing countries, suffered a setback at the second UNCTAD. It is necessary to appreciate that the first UNCTAD was called to consider measures in the field of trade and aid which would help in implementing the targets of an international programme of development that had already been accepted in the first UN Development Decade. The second UNCTAD did not succeed in gaining acceptance for measures that could have been implemented in order to ensure that the final years of the first Development Decade were more successful than the earlier ones. At the same time, since the targets for the

second Development Decade had not been sufficiently defined and accepted by the time of the second session, the measures in the field of trade and aid which were required for their realization could not be clearly identified and discussed.

9. Within the United Nations system, however, many opportunities are still planned for the world community to continue with the elaboration of the targets, strategies and policies of the Second UN Development Decade. In participating in these deliberations African countries can call on a certain number of principles that were agreed on at the first and second UNCTAD, and can further pursue their efforts to gain acceptance for others that were not accepted. If a programme of action is carefully worked out and followed by the African countries, in collaboration with other developing regions, then international economic solidarity could emerge in the coming months even stronger than it was thought to be after the first UNCTAD.

## CHAPTER I

### COMMODITY PROBLEMS AND POLICIES

10. Africa's extreme dependence on trade in a narrow range of primary commodities is clearly reflected in the proposals put forward in the African Declaration of Algiers, the principal points of which were subsequently incorporated in the Algiers Charter.

11. Over the last two decades commodity problems have been discussed widely and continuously in an international framework. These discussions entered a new phase with the first session of the United Nations Conference on Trade and Development in 1964. The first Conference emphasized in particular that the export problems of developing countries required comprehensive and integrated action through commodity agreements and parallel efforts to reduce barriers to trade in primary products, as well as financial arrangements to deal with instability and uncertainty in their export earnings.<sup>1/</sup>

12. In view of the disappointing results of specific commodity consultations after UNCTAD I, African countries continued to press in the period between that Conference and UNCTAD II for agreements which would embrace wider considerations than short-term stabilization measures. At the Second Session some of their views were accepted by the Conference, which recommended a timetable and procedures for action on a number of commodities included in the African Declaration of Algiers as well as the Algiers Charter.

13. In resolution 16(II) the Conference adopted a programme of international action on a number of individual commodities; resolution 17(II) calls for further efforts to formulate a general agreement on commodity arrangements; while resolution 18(II) calls for the co-ordination by UNCTAD of the activities of inter-governmental commodity bodies. In resolution 19(II) the Conference further requested the IMF and the IBRD to transmit a study of commodity price stabilization

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<sup>1/</sup> In particular Annexes A.II.1 and A.IV.18

to UNCTAD.<sup>1/</sup> And in resolution 20(II) the Secretary-General of UNCTAD was asked to submit to the next session of the Committee on Commodities an outline of a study on the possibility of defining the elements of a minimum agricultural income for wage-earners and other producers of primary commodities in developing countries.

14. The Conference failed to register any general advance towards a comprehensive international policy for dealing with the well-known weaknesses of the primary commodity markets. It was unable to reach agreement on pricing policy or on a general policy for the liberalization of commodity trade. Although there was agreement that buffer stocks should be one of the techniques for market stabilization and that the regular financing of such stocks should not impose an excessive burden on developing countries, the Conference also failed to agree on the principle of market intervention by buffer stocks or on sources for their pre-financing. There was no agreement on how to deal with the effects of synthetics on the world market for natural products; on any possibility of restricting or regulating in any way the production of synthetics and substitutes which compete directly with natural products; on measures to improve the access to markets for natural products facing competition from synthetics and substitutes; or on the financing of research to improve the competitiveness of natural products. It also proved impossible to reach agreement on a number of diversification proposals.

15. The Committee on Commodities at its third session in October/November 1968 discussed a number of the proposals on which the Conference had not reached agreement, and adopted recommendations on buffer stocks and diversification for transmission to the Trade and Development Board. The Committee deferred consideration of other outstanding proposals.

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<sup>1/</sup> The first part of the study was submitted to the annual meetings of the IMF and the IBRD and the third session of the UNCTAD Committee on Commodities.

16. The agreed recommendation concerning buffer stocks recognizes that buffer stocks may have to intervene in the markets, but specifies that each commodity agreement or arrangement should define the conditions under which intervention should take place. The principle of pre-financing by international financing organizations was also recognized. The agreed text on the subject of diversification contains the seven paragraphs already accepted in New Delhi and three new paragraphs on modifications of production policies and improved access to markets.

17. The following paragraphs deal more in detail with some of the decisions referred to above, and also bring up to date the action taken since the Conference in respect of specific commodities.

18. Resolution 16(II) on international action on commodities appeared to hold out the hope of more marketing arrangements than seemed probable or possible before the Conference. For some commodities such as cocoa, sugar and edible oils and fats the action proposed was due to be undertaken in any case as a result of prior agreements in other forums. The second Conference did, however, recommend action on a number of commodities which were not covered by previous international arrangements<sup>1/</sup> and some of which are of great importance to Africa.

19. The developing countries failed to get endorsement from the international community as a whole for a proposal that producing countries should consult and co-operate among themselves in order to co-ordinate effectively their policies in the commodity field. But this lack of support from developed countries should obviously not inhibit African countries from continuing their efforts to concert their marketing policies with other producing countries as they already do in the African Groundnut Council and the Cocoa Producers' Alliance.

20. The United Nations Sugar Conference, which had adjourned in October 1965, was reconvened by the Secretary-General of UNCTAD on 17 April 1968 after a series of consultations with governments in 1967.

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<sup>1/</sup> Tea, wine, iron ore, tobacco, manganese ore, mica, pepper, shellac and phosphates.

Resolution 16(II) invited all concerned to take the necessary measures to ensure the success of the Sugar Conference in order that an international agreement could be brought into operation by 1 January 1969. The discussions, which were interrupted in June 1968, were resumed on 23 September 1968. In the interval further consultations had taken place. The Conference concluded its work on 24 October 1968 by adopting an International Sugar Agreement, which is open for signature at United Nations Headquarters until 24 December 1968.

21. The agreement deals with supplies to the "free" or "residual" market. Preferential arrangements between certain countries, which govern the bulk of international trade in sugar, do not come within the scope of the proposed market control mechanism. It provides for the defence of a price range in this residual market by means of a system of export quotas. Particular attention is given to the needs of small developing countries whose export earnings are heavily dependent upon the export of sugar. The agreement does not provide for a buffer stock.

22. Resolution 16(II) recommended that the United Nations Cocoa Conference should be reconvened immediately after UNCTAD II, preceded by consultations if necessary. At the Cocoa Conference held at the end of 1967, the text of almost all the articles of a draft international cocoa agreement had been approved. However, some issues could not be resolved by the 1967 Conference, including the action to be taken if the indicator price remained below the floor level in spite of earlier cuts in quotas, and the treatment of freight and related charges on cocoa bought by the buffer stock. Fourteen importing and exporting countries therefore met in June 1968. Other important issues discussed included the question of potential competition to cocoa-processing industries in the importing countries from processing industries in exporting countries and obstacles to trade. Further discussions are envisaged. The Group of Fourteen reached agreement on almost all the major elements of the "package deal" which had not been resolved by the 1967 Conference.

23. In 1967 the total value of exports of cocoa beans and cocoa products from producing countries increased by more than 20 per cent due primarily to a continuing shortfall in world production compared with consumption. The trend in world consumption of cocoa is upward over the longer run. An international agreement concluded now and containing effective provisions for regulating the market could prevent a relapse of prices such as could occur once the period of small crops is over.

24. Following recommendations in resolution 16(II) the fourth session of the Study Group on Oilseeds, Oils and Fats, which met while this note was under preparation, was called to consider the question of a constitution and terms of reference for a possible inter-governmental consultative committee on oilseeds, oils and fats.

25. The value of world exports of fats and oils fell by nearly six per cent in 1967 compared with the previous year. The reduction in the export earnings of the developing countries was particularly sharp (14 per cent) since the volume of their exports of fats and oils actually fell. The volume of exports from Africa decreased by margins ranging from 42 per cent in the case of palm oil to 27 and 9 per cent in the case of palm kernels and oils and groundnuts and oils respectively, while the falls in the prices of the same products were contained between a world average of a 5.3 per cent reduction in the export unit value of palm kernel oil and 2.9 per cent for groundnuts.

26. The Permanent Group on Synthetics and Substitutes was charged by the Conference with the task of hastening the implementation of the measures recommended by the UNCTAD Exploratory Meeting on Rubber in December 1967; reviewing progress, ascertaining effectiveness of measures, formulating appropriate new measures and generally keeping a watch on the natural and synthetic rubber situation. At its Second Session in October 1968 it adopted a recommendation on marketing, production and supply and intermediate financial and technical assistance.

27. In 1967 a rise in the volume of natural rubber exports from developing countries was again more than counter-balanced by the fall in prices, and the value of these exports declined by 13 per cent. The volume of exports from the two main African exporters, Liberia and Nigeria, declined by about 10 per cent while the value fell by 24 per cent. The potential production capacity for natural rubber does not respond quickly to changes in price, while the surplus capacity in the case of synthetic rubber could be considerably in excess of normal reserve requirements. It would therefore appear that the downward pressure on prices, which has existed since 1961, will continue.

28. The Conference requested the Secretary-General of UNCTAD, in consultation with the Director-General of FAO and the governments concerned, to evaluate the operation of the informal understandings on indicative price ranges and export quotas for hard fibres within the Consultative Sub-committee of the Study Group on Hard Fibres. The recommendation was examined by the Sub-committee at its meeting in June 1968, which considered that it was then too early to evaluate the informal arrangements.

29. As a result of the high prices and heavy plantings in 1963/64 there has since been a tendency for production to outrun the growth of consumption so that the price of sisal has shown a marked decline. Total export earnings from sisal have fallen by 35 per cent in the last two years. The volume of exports of sisal from Africa was about 11 per cent lower in 1967 than in 1966, while the world average export unit value fell by 19 per cent. In spite of a slight increase of about one per cent in the volume of exports from Africa's main producer, Tanzania, whose exports of sisal account for one-third of its export earnings, the value was down by 15 per cent.

30. Further inter-governmental consultations have taken place in respect of other commodities which the Conference recommended for prompt consideration in order to identify the problems faced by each commodity and to agree upon appropriate measures and techniques as a basis for action to remedy them.

31. The International Cotton Advisory Committee at its Session in June 1968 took note of resolution 16(II). The problems of cotton were also considered at the second session of the Permanent Group on Synthetics and Substitutes. The volume of exports from developing countries declined by 2 per cent from 1966 to 1967, but because of a rise in prices their earnings from these exports rose by 10 per cent compared to an average rise of under 1 per cent per year since 1955-57. Unless there are further deficits in production it seems unlikely that the rise in prices which underlay the high rate of growth in 1967 will be maintained. Competition from synthetic fibres will in any case set a ceiling to cotton prices. The share of cotton in world consumption of textiles fell from 66 per cent in 1957 to 54 per cent in 1967, while world consumption of man-made fibres increased from 28 per cent to 42 per cent over the same period. There was no change in the quantity of cotton exported by African countries between 1966 and 1967.

32. Resolution 16(II) was also considered at the ad hoc Consultation on Wine which took place in June 1968. It was decided to recommend to the Committee on Commodity Problems of the FAO the establishment of a study group on Wine and Vine Products. World trade in wine declined sharply in 1967, mainly due to a fall of 45 per cent in imports into the OECD countries from all developing countries, including a reduction of more than 50 per cent in their imports from Algeria. Underlying this decline was a halving in French imports from the levels of 1965 and 1966. French import requirements are likely to be permanently reduced. The new common policy for wine at present under discussion in the EEC adds to the concern of the wine exporting developing countries, which are mainly in North Africa.

33. A third ad hoc Consultation on Tea is scheduled for January 1969, while the next session of the Study Group on Bananas is due to be held in early 1969 and that of the Study Group on Citrus Fruit in late 1968 or early 1969. Resolution 16(II) was included on the agenda of the Working Group of the UNCTAD Committee on Tungsten in September 1968. These are all commodities of importance to one or more African countries.

34. East African exporters have more than doubled their production of tea in recent years and are now playing a large role in the tea trade. Over the last ten years the annual value of world tea exports hardly changed, though the quantity exported increased by about one-fifth. The gains of new exporters, an important number of which are African, have been obtained entirely by adding to the volume of world exports, which offset the decline in unit values for most of the period, and thereby taking a share of a stagnant total of foreign exchange receipts.

35. The volume of African exports of bananas declined by 7 per cent and 8 per cent in 1966 and 1967 respectively. The export performance in 1967 was mainly due to a continued fall in the production in Cameroon and the adverse effects on exports from Somalia and Madagascar of the closure of the Suez Canal.

36. World trade in fresh citrus fruit rose by about 6 per cent in 1966/67. Developing and developed countries shared this increase equally. But the value of imports into OECD countries from the three main African producers, Morocco, Algeria and Tunisia, declined by about 6 per cent due to a fall of 26 per cent in exports from Algeria.

37. The price of tungsten concentrates in 1967 was 20 per cent higher in sterling terms and 18 per cent higher in dollar terms than the average price in 1966, which was, in turn, 43 per cent above the 1965 average. In the first half of 1968 a severe short-term slump in prices interrupted this trend. The Democratic Republic of the Congo and Rwanda are the most important African producers of tungsten ores and concentrates.

38. No action has been taken on the other commodities which the Conference considered required prompt consideration, namely pepper, tobacco, shellac, iron ore, manganese ore, mica and phosphates. African countries are producers and exporters of all these commodities except shellac.

39. The most important African exporter of pepper is Madagascar, the volume of whose exports fell by 27 per cent from 1965 to 1966. Due to an increase in unit value the decline in the value of exports was only 15 per cent. Partial returns for 1967 indicate that the volume of exports increased, but probably not enough to offset a fall in unit values.

40. The most important African exporter of tobacco is Southern Rhodesia. Its sales are not known, but an indication is given by the increase in the sales of the other main exporters of flue-cured tobacco, though some of these are known to be a cover for Rhodesian exports. The sanctions against Southern Rhodesia have, however, coincided with a decline in tobacco production in Zambia and stagnation in Malawi, two other African producers of flue-cured tobacco, so that the region's recorded exports have fallen.

41. World consumption of iron ore increased by 4 per cent in 1967, following a slow-down in 1966. Between 1960-62 and 1965-67 the estimated iron ore content of ore exports from developing countries increased on the average by nearly 11 per cent annually. The two main African exporters, Liberia and Mauritania, have recorded particularly marked rates of increase in the volume of their exports.<sup>1/</sup> The most immediate concern is the erosion of prices. The unit value of exports from developing countries declined at an average rate of 2 per cent per year between 1960-62 and 1965-67. The unit values of ore exports from Liberia fell by 12.3 per cent annually during this period, while those of Mauritania increased by 5 per cent in 1965 and decreased by 1 per cent in 1966 and 1967 respectively.

42. Since the end of the 1950's, the value of exports of manganese ore from developing countries has on the whole stagnated and in many cases actually declined. The value of exports from the main African producers, Gabon, Ghana, the Democratic Republic of the Congo and Morocco, declined by 8 per cent from 1966 to 1967, partly due to a 4 per cent fall in unit values. The chief factor in this situation appears to be the existence of excess mine capacity.

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<sup>1/</sup> Mauritania commenced exports only in 1963.

43. Deposits of mica are widespread throughout the world, but only few countries possess the two main requirements for an important mining industry, namely deposits of the right quality and a skilled, low-cost labour force. The only important African producer is Madagascar, but exports of mica constitute only about 1 per cent of its total export earnings. In recent years consumption has not risen at the same rate as the production of goods in which it has been traditionally utilized. It is believed that the main reason for this development is a shift in the pattern of electronics output towards products that use relatively less (or no) mica.

44. The quantity of world exports of phosphate rock increased by an average rate of 7.7 per year in the decade 1955-57 to 1965-67. The increase in 1967 was 4 per cent. Developing countries still supply the bulk of imports into the OECD countries, but as a group they have been losing ground as suppliers both to the United States and to the USSR. Imports from Senegal and Togo have been rising exceptionally rapidly, while those from the two leading developing country suppliers, Morocco and Tunisia, have grown more slowly than total imports from all developing countries. The main problem faced by certain developing exporters of phosphate rock, principally Morocco, Tunisia and the UAR, appears to be one of competition, in particular from the USA and the USSR.

45. One commodity listed by the African Declaration of Algiers as causing great concern, namely copper, was not included among the commodities listed in resolution 16(II) as requiring prompt consideration. Developing countries' export receipts from copper were again high in 1967, though some 3 per cent below the record earnings of 1966. Exports from Zambia increased by 3 per cent in volume, but their value dropped by 6 per cent. The value of exports from the Democratic Republic of Congo fell by 8 per cent. This could be another of these cases where the urge to pursue international arrangements for stabilization is lost by developing country producers until the boom period is over when, of course, the importing countries have no interest in an international agreement.

46. The summary review above shows that although the dialogue started in New Delhi has not been interrupted, and inter-governmental consultations have taken up the thread, the gap in existing international commodity policy is far from closed.

47. UNCTAD I had sketched the outline of a new doctrine with respect to commodities. The short-term aim was to be the adjustment of market forces and the longer-term aim was the rationalization of the market itself. The rejection at UNCTAD II by the developed countries of proposals relating to buffer stocks, synthetics, diversification, pricing policy and access to markets may mean that for a long time to come the international trading community will have to rely on piecemeal attempts to deal with commodity problems rather than an integrated policy. The developing countries' proposals on these subjects, if accepted, would have constituted the elements for a general set of guidelines in the field of commodity policy.

48. Although a solution of commodity problems cannot in itself constitute an international development policy, it is a key element in any global development strategy. The present discussion about particular arrangements and techniques for dealing with commodity problems should not obscure the overall need for a reorganization of the system of international commodity marketing. African countries should therefore continue to seek a more general acceptance of this principle.

## CHAPTER II

### TRADE IN MANUFACTURES AND SEMI-MANUFACTURES

49. African countries requested in the African Declaration of Algiers that (a) the tariff reductions accorded during the Kennedy Round should be applied in their entirety to all developing countries, without reciprocity; (b) as a follow-up of the Kennedy Round new negotiations should take place on the occasion of UNCTAD II with a view to reducing or eliminating the remaining tariff and non-tariff obstacles affecting the exports of developing countries; (c) the developed countries should institute at UNCTAD II a generalized system of tariff preferences, on a non-discriminatory basis and without reciprocity, which should apply to all manufactures and semi-manufactures exported by the developing countries.

50. The only specific result in this field, resolution 21(II) on preferential or duty-free entry of exports of manufactures and semi-manufactures of developing countries to the developed countries, was agreed after one of the most arduous and prolonged sets of negotiations of the Conference. It commits, in principle, the developed countries as a group for the first time in their history to give special consideration in their import policies to manufactured and semi-manufactured products from the developing world.

51. The unanimous acceptance by the developed countries of the desirability of a general, non-discriminatory and non-reciprocal system of preferences in favour of developing countries is of considerable conceptual importance. Four years ago, at the first conference, this request of the developing countries was not accepted. For some countries, and in particular the United States, it means a fundamental change in their traditional trade policy.

52. This major advance in international trade policy was finally worked out within the OECD in response to the extensive consultations that had taken place since the first UNCTAD. It was the most important contribution which the developed western countries brought to the second UNCTAD. Its outlines had been known at the time of the Algiers Conference. For the second session itself developing countries aimed to have certain shortcomings of the OECD proposals (as seen from their point of view) corrected and also to secure a firm agreement on the modalities and time table for the implementation of the scheme.

53. The progress made in these directions at the second session was extremely limited. The Conference did not reach any agreements in relation to the main features of the system. The resolution which was passed does not provide the necessary guidance for the negotiations that will have to start. It fails to spell out what products and which countries shall benefit, what safeguards shall be built into the system, and other important points of any trade agreement. Moreover, there is no firm commitment for the effective entry into operation of the system.

54. The resolution established a Special Committee on Preferences as a subsidiary organ of the Trade and Development Board to undertake further consultations. The aim is to settle the details of the arrangements in the course of 1969, with the expressed "hope by many countries" that the system should enter into effect in early 1970. This Special Committee was in session when this report was prepared.

55. The main elements which will determine the economic benefits of a general system of preferences to developing countries are: its product coverage; the ab initio exceptions and the extent of the preferential duty reductions; safeguards and adjustment measures; rules of origin; the duration of the scheme; special measures within the system for the least developed among the developing countries; the treatment of existing preferences; reverse preferences and other elements of reciprocity; the extent of participation by donor countries and beneficiary countries; corresponding action by the socialist countries of Eastern Europe; and the institutional arrangements for negotiating and managing the scheme.

56. Three points are of particular importance for African countries at this stage: the question of the reverse preferences which some of them accord to developed countries in return for the existing preferences granted to their exports, the merging of these existing preferences with the general system, and the product coverage of the proposed general system.

57. The United States appears to have made its acceptance of the general system conditional upon the establishment of a timetable for the abolition of the reverse preferences. The African countries concerned could hardly be expected to withdraw unilaterally tariff concessions from those industrialized countries to whom they have already extended such concessions and to whom they have now contractual obligations. The Yaoundé Convention was negotiated long after the principle of non-reciprocity had been accepted by the developed countries, in UNCTAD and under Part IV of the General Agreement on Tariffs and Trade. But the African countries were still asked for, and were constrained to grant, reverse preferences in return for preferential entry of their exports into the European Common Market - in the case of the eighteen African countries associated under the Yaoundé Convention, also for a certain fixed volume of financial assistance. The negotiations that have since taken place with Nigeria, the members of the East African Community and Morocco and Tunisia have also been based on their prior acceptance of the demand by the EEC countries for reciprocity. Obviously, the African countries concerned would have preferred to obtain liberal access to the EEC market on a basis of non-reciprocity. But it is equally obvious that this is a field in which the initiative belongs outside the region. Those developed countries who now enjoy reverse preferences and those, like the US, who demand equal treatment should between them work out and propose a concrete solution which would enable all developed countries to extend preferences to all developing countries on an equitable basis as between donor countries.

58. The second important issue for Africa in the search for a means of applying preferences is how to merge the new, general system with already existing, limited schemes. The principal benefit under the existing schemes is the possibility which they open up for the participating African countries to develop their exports of manufactures and semi-manufactures without tariff disadvantages as compared to European suppliers and under more favourable conditions, and therefore presumably faster, than non-participating developing countries. However, the value of the advantages enjoyed by these African countries may easily be over-estimated. The main competitors for the prospective new industries in African countries are domestic producers in the participating developed countries, and they are of course not affected by the existence of a preferential tariff advantage granted to African countries vis-à-vis other developing countries. Moreover, African countries will have to weigh the compensatory advantages that will be offered by the new system in place of the exclusive preferences now enjoyed by them in Europe - such as preferential access to the markets of North America, Japan and other developed countries in which they at present do not enjoy special privileges. African countries associated with the European Economic Community have agreed that a general tariff reduction by the EEC countries in favour of other developing countries would be acceptable to them if at least equivalent advantages could be provided for the loss of this one element of preferential advantage.

59. The problem of product coverage was discussed at great length by the Second UNCTAD. The developing countries requested that preferential treatment should be accorded to all manufactures and semi-manufactures, including processed and semi-processed agricultural and primary products, with a bare minimum of exceptions which would be determined on a case-by-case basis. The developed countries were willing to include all manufactures and semi-manufactures on the basis of Chapters 25-99 of the Brussels Tariff Nomenclature with a minimum of exceptions.

Processed products in Chapters 1-24 they offered to consider on a case-by-case basis.<sup>1/</sup>

60. Even if the system were to embrace all important processed and semi-processed agricultural items, its benefit to most African countries would at the initial stages be rather limited. Without the inclusion of these items, the contribution made to the prosperity of Africa by the generalized system of preferences would be quite insignificant. African economies are primarily agricultural; what is more, African countries are being advised to pay more attention to agriculture and to base their nascent industrialization on it. A decision not to include agricultural processed products in the general system of preferences will therefore amount to excluding the only manufactured products which most of the African countries have to sell now and are likely to have for a number of years to come.

61. The Conference also decided, in resolution 25(II), to carry out a study on restrictive business practices adopted by private enterprises of developed countries, with special reference to the effects of such practices on the export interests of the developing countries, especially the relatively least developed. An outline of the study was presented to the third session of the Committee on Manufactures in October 1968, which could not reach any conclusions. The different views of member governments will be taken into account by the Trade and Development Board which is to determine the scope and nature of the proposed study.

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<sup>1/</sup> The countries members of the OECD have informed the Special Committee that agreement has been reached among them that each prospective preference-giving country will table by 1 March 1969 two lists of products; one with products falling within Chapters 25-99 of the Brussels Tariff Nomenclature on which it is not prepared to grant any preference, and one with products falling within the first 24 Chapters on which it is prepared to grant preferences.

62. Two draft resolutions submitted by the developing countries on liberalization and expansion of trade in manufactures and semi-manufactures of interest to the developing countries and on a programme for export development for expansion and diversification of exports from developing countries were not accepted by the developed countries and were transmitted to the Trade and Development Board for consideration.

63. The first of these resolutions proposed the setting up of an inter-governmental group on non-tariff barriers, in view of the fact that GATT had not been able to deal in depth with certain types of cases for a number of years. The third session of the Committee on Manufactures requested the UNCTAD Secretariat to carry out a number of studies to assist it in considering the question further at its next regular session.

64. One basic point in the second resolution was a proposal that UNCTAD should become a participating agency in the UNDP. This point was resolved by the Trade and Development Board at its seventh session.

65. The differences in degree of development between developing countries are both greater and more significant in the trade of manufactures and semi-manufactures than in the trade of primary commodities. The scale of industrial development in most African countries is such as to put them at a disadvantage vis-à-vis other more advanced developing countries in participating in a system of preferences. Some countries in Africa - and some of the weaker developing countries in other regions as well - could actually lose in any competition with those developing countries which already have some manufacturing industries and are thus in a position to make prompt use of a general system of preferences or easier access to the markets of the developed countries. At the very least the system should contain some recognition of the fact that African countries will on the average take a longer time to benefit from it.

66. In the ongoing negotiations and deliberations about the generalized system of preferences African countries have to evolve a concerted position taking into account all the above factors. The main elements of such a position would seem to be:

- (a) It would on the whole be better to have a generalized system of preference applied by all developed countries in favour of all developing countries than not have it;
- (b) That if in the process of instituting a non-reciprocal system African countries were able to rid themselves of the present burden of granting reverse preferences this would be a clear gain to both their own prospects for industrialization and to the prospects for inter-African co-operation;
- (c) That to be meaningful to African development the new system should be more closely related to the present and immediately foreseeable production capacity of African countries. This means necessarily a generous coverage of processed and semi-processed agricultural and primary products;
- (d) Again if existing preferences are to be subsumed in the new system then the provisions in the latter for export items of interest to African countries should be as comprehensive as those in the former: at present only the common agriculture policy of the EEC stands in the way of complete tariff-free entry for African products;
- (e) The new system should be established for an adequate period of time and be managed multilaterally.

67. The African region is fully represented on both the Special Committee and on the Committee on Manufactures. The request of the developing countries that a scheme of generalized tariff preferences be put into effect by early 1970 constitutes the mandate for the work of African representatives on those bodies. In the meantime it would also be necessary that the new agreements that will be concluded between the EEC and some African countries should be in terms that do not stand in the way of a global system but, if possible, actually make provision for an orderly transition from the one system of preferences to the other.

## CHAPTER III

## DEVELOPMENT AID

68. The consideration of the question of international financial assistance by the second session of UNCTAD ended with the adoption of resolutions 27(II) to 33(II) which dealt respectively with the volume of aid, the mobilization of internal resources, the terms and conditions of aid and the problems of external indebtedness, supplementary financial measures, compensatory financing, the international monetary system and the flow of private capital. It is undoubtedly true that the crisis in the international money market which developed at the beginning of March 1968, right in the middle of the second session, influenced the outcome of the Conference on these questions. However, it is possible to discern some more persistent trends in the development of these aspects of international financial relations that are embraced by UNCTAD's discussions. In spite of temporary factors, the areas of possible advance can be recognized and pursued; the areas where deterioration is likely are also apparent and measures will have to be adopted to stem this deterioration.

A. The Volume of Aid

69. At its first session the Conference had adopted without opposition a recommendation (A.IV.2) which, starting from the premise that even the 5 per cent annual growth target of the First United Nations Development Decade was insufficiently ambitious, aimed to achieve an increase in the volume of financial transfers to the minimum net amount of 1 per cent of the national income of each advanced country as recommended by the General Assembly in 1960 and again at the launching of the Decade in 1961. Between the first and the second sessions of the UNCTAD the flow of aid, instead of increasing towards this target in relation to the GNP or any other measure of the resources of the developed countries, tended to move away from it. Even counting in private export credits which are

guaranteed by governments, the aid effort of the developed market economies has fallen progressively during the decade from 0.87 per cent in 1961 to 0.64 per cent in 1966, the only year of improvement having been in 1965 when the percentage reached 0.69 per cent.

70. Against this background, the primary concern was how to get the governments which had subscribed to the aid target set by the first session to take measures towards its realization. This could be done either by agreeing on a date(s) by which each country would reach the target; or by obtaining a commitment that the governments' own portion of the aid effort would be sustained in relation to an agreed target. Two other methods of bringing about an increase in the volume of aid had been considered and could be used as an alternative, or a supplement, to the more direct method of inter-governmental commitment. One was to increase the resources of the multilateral financial agencies so that they could provide financing in relation to the growth targets without the fluctuations and other problems which are attendant upon bilateral aid. The other was to take measures to give the developing countries - and the multilateral institutions also - greater access to the resources of the private capital markets of the developed countries which, in relation to the desired volume of international financial assistance, are very great indeed. As a minimum, the aim was to obtain a commitment from the developed countries that the downward trend in the relative aid effort would be arrested and eventually reversed. These objectives were embodied in a number of proposals made by the developing countries in the Charter of Algiers.

71. As far as concerns the flow of aid to the African region the situation at the beginning of the second session of UNCTAD was that, owing to the weakness of the machinery governing some parts of this flow, the share of Africa in the net flow of multilateral and official bilateral finance from the western countries had fallen sharply from about 39 per cent in 1960 to about 27 per cent in 1965. At the same time the Yaoundé Convention, which had determined the volume of multilateral aid flowing from the EEC institutions to the

associated African countries, was due for renegotiation. At the meeting of the African members of UNCTAD organized jointly by ECA and the OAU immediately prior to the ministerial meeting of the Group of 77, African countries had sought support from the whole of the developing world so that the EEC might at least be requested to maintain the level of aid granted under the expiring treaty. The Group of 77 had accepted this negative objective, but had not gone on record as requesting an increase in the flow of aid to the African countries under the EEC arrangement. The Group of 77, however, recommended that "special consideration should be given to developing countries which have not so far received adequate international aid".

72. At the second UNCTAD discussion initially centred almost entirely on a technical redefinition of the aid target so that the base of calculation might be changed from the "national income" mentioned in the 1964 resolution to gross national product at market prices. It was estimated that the substitution of the new formula for the old one would involve a potential increase of some 25 per cent in the amount of resources to be transferred. But finally, the Conference came back to the question of how the new, or any other, target on the volume of aid would be implemented.

73. The background situation was that appropriations for official assistance in all the major donor countries of the West was stagnating, and in the case of the United States there had even been a reduction in the initial request of the administration itself. Consequently, there was no immediate prospect that a commitment could be obtained from the developed countries to achieve any given targets of aid in relation to the growth objectives of the UN Development Decade which still had two years to run. At the same time not enough progress had been made in the defining of the objectives of the prospective Second Development Decade so as to make it possible to relate the new target of aid to those objectives as part of a set of coherent international measures for the Second Development Decade.

74. Resolution 27(II) therefore had to register, in effect, a backward movement from the results achieved at the first session of

UNCTAD. A number of the smaller donor countries, in particular the Scandinavian countries, Canada and Holland, had already adopted unilaterally budgetary policies which made it possible to foresee that they could implement the new aid target by 1972 or at the latest by 1975. The major donor countries however did not commit themselves to any target date for the realization of the recommendation. Those of them that invoked balance of payments difficulties as the reason for their inability to increase their aid could not forecast when these difficulties would be over. At the same time, they did not accept a commitment that when these balance of payments difficulties had been overcome (however this situation was measured) they would take steps as far as the governments themselves were concerned to implement the recommendation. Other major donors who could not plead balance of payment difficulties advanced other reasons, including constitutional ones which are of indefinite duration, for their inability to take commitments on the question of increasing the volume of financial assistance up to the recommended proportion of their total national resources.

75. Agreement could not be reached either on some of the subsidiary methods that could be adopted for the realization of the target of aid. Few donor countries were willing to undertake to try to keep their official assistance either at a given proportion of the national product or of their budgets. Commitments could not be obtained from the developed countries even to ensure that the proportion of budgetary resources devoted to international assistance would no longer be allowed to diminish as it had tended to do in most donor countries, both those with market economies and those with centrally planned economies.

76. The other possible alternative, that of enabling the market mechanism in the developed countries to supply the requisite volume of aid, with or without the support of some such arrangements as are contained in the Horowitz proposal, was not positively adopted either. On the contrary, the prospect that a Horowitz-type

solution will be given serious consideration seems to have receded further. In the programme of consultations within the permanent machinery of UNCTAD which has been agreed since the second session, little emphasis is placed on a really serious exploration of the possibilities of this device.

77. By the time of the second session it was already clear that IDA would not be replenished at anywhere near the level of \$1 billion per annum which the management of the IBRD had originally set as its objective. As of the end of 1968, even the agreed replenishment at \$400 million per year had not been implemented. The other possible contribution of the multilateral agencies to the aid effort that were discussed at the second session, such as supplementary financial measures and compensatory financing, were concerned with stabilizing the level of the foreign exchange resources available for development rather than increasing the volume.

78. The system of special drawing rights in the IMF has been put into its final form and is to be implemented without being linked in any way with a commitment on the part of the donor countries to increase the volume of their financial assistance either in any given proportion to the amounts of new liquidity received by them under the system or even simply concomitantly with the activation of the scheme but without any obligations as to the amount of additional aid.

79. In considering how the above developments at the Second UNCTAD on the question of the volume of aid affect the immediate prospects of aid to the African region, and what actions African countries could take towards improving their position in this field, it is to be remembered first of all that the decisions on aid which were adopted at the second UNCTAD were carried almost entirely on the votes of developing countries even though the initial proposals for specific and binding decisions had all been heavily watered down in the course of Conference negotiations. This is in contrast to the First Conference where an unqualified international target

on the volume of aid to be provided by all capital exporting countries was accepted by a general consensus with the understanding that this was a part of an overall complex of international measures designed to support the objectives of the first UN Development Decade. Additionally, it has to be kept in mind that the governments of major donor countries were able quite explicitly to gain international acceptance of the fact that they did not hold themselves bound in any way to implement the targets or recommendations adopted by the second Conference.

80. Other negative elements in the aid situation may be noted. The flow of bilateral assistance from France, which used to be one of the more outstanding examples exerting pressure on other donor countries to increase their aid efforts, has entered into a period of distinct stagnation. The credits granted to the FAC for 1968 for capital assistance were actually lower than those granted in 1967. External assistance was again one of the first victims in the general retrenchment that followed the political upheavals of May 1968 and the subsequent difficulties of the franc in the international monetary market. The freeze in the level of official aid from the United Kingdom which was imposed in association with the devaluation of sterling in November 1967 and with the much longer standing balance of payments difficulties of the UK cannot be expected to be relaxed significantly in the immediate future. It seems, however, that ad hoc programmes for additional assistance directed to special cases could command a degree of priority in the utilization of additional resources that become available in the UK, though these would tend to be of the nature of compensatory aid rather than positive development assistance.

81. In the USA Congress has now passed the smallest aid bill in 24 years just before the inauguration of a new administration which is also committed to take a more reserved approach towards external assistance. This it did by cutting down drastically on the requests for development loans and technical assistance, items of pre-eminent importance for African countries, even though the Administration's proposals were already the lowest on record.

Even if the African region maintains the same share in the final allocations of aid in 1968/69 as in the original request to Congress, the size of the appropriations granted would entail a reduction of more than 10 per cent in US assistance to the region this year. But it is precisely in such situations of falling aid that those developing countries which have a stronger machinery for mobilizing assistance expect to be affected less by the cuts than other countries, so the reduction in aid to Africa could well be made greater.

82. Despite the fact that the large balance of payments surpluses of the Federal Republic of Germany should present a positive incentive for that country to increase its flow of aid as one of the possible means of correcting the situation, the German Government was unable to subscribe to the definition of a target of aid to be attained at an agreed date. However, the budgetary programme already laid down entails an expansion of West German public aid at the rate of 11 per cent per annum from 1967 to 1971. This should enable the Federal Republic of Germany to achieve the aid target according to the formula of the first UNCTAD in the near future. The Government of Japan has begun to assume more and more the posture of a developed donor country although it is one of the Governments that has most explicitly sought exemption from the application of any general international target of aid. At the same time, Japanese aid, inevitably, is concentrated in Asia.

83. Initiatives for promoting an increase in the flow of external financial assistance to the African region have to be exercised against the background of these negative developments which are mostly matters of actual fact and existing government policies. To a certain degree, however, advantage can be taken of certain positive factors though many of these consist simply of declarations of intention. Thus the statements by all the major donor countries at the second session of UNCTAD on the need for an increase in the flow of aid were extremely positive. Every single government declared its willingness to work towards such an increase. Thus over the years when action within the international machinery has to

be taken to implement the results of UNCTAD, it will be possible for the developing countries to judge quantitatively whether these intentions have been implemented as the opportunities to do so have arisen for one donor country after another.

84. Some of the reasons for the recent stagnation or reduction in development assistance have been of a temporary or special nature. Thus the Vietnam war, the devaluation of the pound sterling, the balance of payments difficulties of the US and the UK, have all been factors adversely affecting the flow of aid from two important sources, but factors which are already in prospect of being overcome. With the cycle of changes among the developed marked economies from debtor position to creditor position in successive periods it is inevitable that each donor country will in turn get rid of these special inhibiting factors. Any measures that are taken, for instance, to resolve the crisis surrounding the French franc will, as soon as they are successful, create the conditions for the resumption of a higher level of aid by France.

85. There remains a questionmark over the issue whether international financial assistance will retain a sufficient degree of priority in the policies of donor countries such that these opportunities will be taken advantage of when they arise. There is increasing acceptance by popular opinion of the assumption that donor governments and their electorates are generally disenchanted with international financial assistance. Whether it is well founded or not, the continued repetition of this view by the mass media of communication have tended to make it increasingly true. Resolution 10(II) sought to deal with the question of informing world public opinion of the work of UNCTAD and the problems of development. As of now, no substantial or credible programmes for this purpose have been undertaken. In any case the question goes far beyond UNCTAD and perhaps could best be tackled at this time within the framework of the international programme for the second Development Decade as a whole.

86. A number of positive developments of a factual nature may also be identified. Firstly, the growth of the economies of both Western and Eastern European developed countries has continued uninterrupted in spite of difficulties affecting one country or another at any given moment. In the USA alone the gross national product is now running at such a rate that realization of the one per cent target in terms of actual disbursements as called for by resolution 27(II) would entail transfers of not less than \$9.0 billion in 1969 as compared to net transfers of \$9.9 billion from all DAC countries in 1966.

87. Secondly, the IBRD has embarked on new departures of policy that would make it more nearly a development bank as called for in the Algiers Charter. The Bank is using more vigorously its powers for raising funds on the capital markets. And it has decided as a matter of policy to allocate more of its resources in support of African development, especially in agricultural and manpower development. In the absence of an interest equalization scheme, there is a problem how African countries can afford to use increasing amounts of these funds which the Bank is raising on commercial terms. It is implicit in the Bank's new policies that a greater proportion of IDA resources, once the replenishment is effected, should be channelled towards the African region. By mixing IDA and Bank funds, the IBRD should also be able to soften the average terms of these credits and hence make it increasingly possible for African countries to utilize them.

88. The IBRD is also proceeding to help in strengthening the machinery for the mobilization of an increased and stable volume of aid to the African region. Thus a new consultative group has been formed for the countries of the East African Community; it has been agreed to convert the debt-rescheduling arrangement for Ghana into a consultative group; and the Bank has undertaken a special programme to rehabilitate and strengthen the economy of the UAR.

89. The arrangements for the East African Community represent a particularly significant departure. The problems of getting

governments to agree on harmonizing their development programmes and of arranging financing for multinational projects are difficult and well known. The importance of the Bank's scheme is that it is considered possible to solve these problems. In turn, the existence of this consultative group should create an incentive for closer co-operation among the African member countries of the Community, based on the realization that there are internationally supported and hence effective means of raising the necessary financing for the implementation of a rationalized programme of sub-regional development.

#### Programme of Action

90. Based on all the above considerations, it would seem possible to propose the following programme of action to be pursued by the African countries. For 1969, the principal objectives would be the following:

- (a) The renegotiation of the Yaoundé Treaty, which is due to be completed by May 1969, should result in a commitment by the EEC to provide more aid than was provided under the expiring Treaty. Means must be sought for mobilizing the support of all African countries, and of the other developing regions, behind the 18 African countries which are directly involved. Ideally, the negotiations should also result in an improvement in the procedures for the disbursement of EDF Funds so as to narrow the wide gap that has appeared between the commitment and the disbursement of assistance under the second EDF.
- (b) As the drain on the resources of the US Government are relieved by the ending of hostilities in the Far East, the African region must put itself in a position to benefit by the opportunity which the US Government will thus have for expanding its activities in other directions. Pending the emergence of a new policy of aid in the new Administration and Congress, African countries can individually take action to ensure that the out-payments

that they have to make in respect of previous assistance from the US are at least balanced by new commitments of aid or by other means of compensating for such outflows.

- (c) It is widely expected that the UK's balance of payments position will be better in 1969 than it has been in the last three years. Individually and collectively African countries have an opportunity to secure an increase in financial assistance from the UK, and in particular an improvement in the priority which the African region will enjoy henceforth in the allocation of UK official assistance with a corresponding reduction in the share of commercial funds on hard terms in the total flow of aid from the UK to Africa.
- (d) It should be possible to get the Government of the Federal Republic of Germany to join those donor countries that have firm programmes for the implementation of the international aid targets adopted by the Second UNCTAD. At the same time, African countries could profitably strengthen their national and multinational machinery for raising development assistance from West Germany, in particular for obtaining official assistance which has hitherto played a smaller role in West German assistance to Africa than might have been expected.
- (e) The group of middle-scale donor countries - Canada, the Netherlands, Belgium and the Scandinavian countries - have already indicated their willingness to meet an aid target of the sort desired by the developing countries. The question is how African countries can take advantage of the opportunity thus presented. While each of these donor countries has established channels of aid to one or other African country or group of countries, the distinguishing feature of aid from these medium sized powers is its preference on the whole for multilateral programmes.

Thus African countries would have to improve their share of the flow of assistance from the UN, IBRD and other multilateral agencies in order to benefit from the increased aid coming from these countries.

- (f) With the amount of preparatory work on sub-regional development that has already been done, it would seem possible for various groups of African countries to arrive at a much greater number of specific agreements on multinational programmes and projects which could attract external finance. In the field of transport, telecommunications and industry many decisions could be taken in the coming year and the medium-scale donors of aid in particular could be relied upon to provide much of the means for their implementation.
- (g) The resources of the African Development Bank and of the East African Development Bank could be augmented by more vigorous concerted action on the part of the member countries. Development banks are also projected in the Maghreb and by the West African Regional Group. A reasonable objective would be that during 1969 the processes establishing these latter banks would be completed.
- (h) In the framework of the continuing machinery of UNCTAD and other international bodies, a number of objectives could be attained in 1969 :
  - i. Agreement could be reached on a time-table for the implementation of the 1 per cent aid target of resolution 27(II). This objective could be most meaningfully pursued within the framework of the definition of the programme for the second UN Development Decade. It would seem feasible to aim at getting agreement that the target would be achieved by 1975 by all industrialized countries. Given that some developed countries

already expect to fulfil the target by 1972, such a time-table would be consistent both with equity in the sharing of the burden of aid and with the need to make due allowance for the effects of random factors such as balance of payments difficulties. But even if a range of dates, spreading over into the second half of the Decade and subject to various provisos, has to be accepted, this might still be better than the present indefinite situation. For uncertainties with regard to the availability of aid are among the most serious obstacles to rational economic policy in Africa.

- ii. The socialist countries have yet to define even a voluntary target for the level of their aid effort. African countries, together with other developing countries, could pursue through the Trade and Development Board and its subsidiary organs the definition of some aid targets for the centrally planned countries within the framework of the second Development Decade even if only in the form of arbitrary quantitative targets set by the socialist countries themselves. A particular African aim would be to secure greater stability in the volume of aid from the socialist countries to the African region.

B. The Terms and Conditions of Aid

91. 1968 was the date set by the OECD countries for the achievement of the improvements in the terms and conditions of aid that were laid down by their resolution of July 1965 and reaffirmed by the General Assembly of the United Nations in its resolution

2170(XXI). Under this the donor countries undertook either to

- (a) provide 70 per cent or more of their commitments in the form of grants; or
- (b)
  - i. provide 81 per cent of total commitments as grants or loans at 3 per cent interest charges or less;
  - ii. provide 82 per cent of total commitments as grants or loans with repayment periods of 25 years or more;
  - iii. attain a weighted average grace period of 7 years.

92. The Algiers Charter consequently set what should have been the minimum objective - that the developed countries would obligate themselves at the second session to implement their own target. However, by the time of the Conference many major donor countries were from far satisfying the terms of the recommendation and had also no firm plans for taking action to comply with them. Consequently, the Conference could only end with the decision that "developed countries agreed to renew their efforts to achieve by the end of 1968 the terms and conditions laid down" by these resolutions.

93. Paradoxically, it can at the same time be said that the second UNCTAD saw a definite movement of opinion towards a consensus on the need for a further softening of the terms and conditions of development assistance. This was because the problem of debt servicing was becoming increasingly wide-spread, so that donor countries had to consider whether it was cheaper to grant financial assistance initially on viable terms or to accumulate, in their competition for sales to the developing countries, claims which frequently could not be encashed. The terms of lending to developing countries had also hardened in 1965 in such a way that it could be demonstrated by simple arithmetical calculation that if the gross flow of aid were to continue at the absolute levels of 1965 and on the same average terms and conditions, then net lending

would become negative by 1970, which was a date within the horizon of immediate policy.

94. Accordingly, recommendations were made for a further softening of the terms and conditions of development assistance. The OECD member countries announced their intention to consider setting new norms, and some developed countries were able to accept as an objective of international financial policy that by 1975 the bulk of bilateral lending should be on terms comparable in their effects to the terms presently applied by the IDA.

95. For African countries the problems for policy and action that arise can be divided into the following sections : (see above para 87).

- (a) Whether a greater proportion of the total inflow of aid to Africa will be provided by the IDA itself on these terms that are the ideal towards which the developing countries are working (see above paragraph)
- (b) What opportunities there will be for participating in the thinking within the OECD so that the promised review of the terms and conditions of aid will end up with favourable results.
- (c) Whether the volume of aid from the European Development Fund and from bilateral sources such as France which give a large proportion of their aid to the African countries in the form of grants, will be maintained, so that the average terms of all development assistance will be lower.
- (d) The extent to which US aid to Africa, which on average has carried moderate terms, can be saved from further excessive reductions in the immediate period ahead.
- (e) Whether donor countries such as the UK and West Germany which have tended to use the commercial credit system for a substantial proportion of their aid to Africa will increasingly participate in financing arrangements in

support of a greater number of African countries' development programmes under which they will accept the need to provide more favourable terms of financial assistance.

96. In order to make progress with the solution of items (a), (c) and (e) above, African countries will by and large have to rely on national or intra-African action for negotiation and persuasion. In the case of the further evaluation of policies within the OECD on the matter of the terms of aid and as concerns the question of securing a general reversal of the present unfavourable trends in US public assistance, concerted action has to be pursued by the Group of 77 as a block.

97. Within the UNCTAD and other international contexts the particular problems that may be identified for further action include:

- (a) commercial credit including suppliers' credit;
- (b) tied aid;
- (c) international mechanisms and principles for dealing with debt crises;
- (d) the possibility of introducing some system of interest equalization.

98. The question of a possible scheme of interest equalization is of particular importance to African countries, especially in the intermediate period before new initiatives by major donor countries to increase the volume of bilateral assistance can be expected to yield any results. The conclusions of the second UNCTAD on the subject were highly reserved, and the programme of consultations within the continuing machinery of UNCTAD does not so far foresee getting to the stage of the formulation of an agreement. Since any such scheme would have to be run in some relationship with the existing World Bank group of institutions, it might be most practical for the African countries to consider what kind of initiative might be pursued on the various occasions up to and including

the next annual meeting of the IBRD, preferably after prior consultation with other regional groups to develop a concerted line. It has to be remembered, however, that many other developing countries are still able to absorb external assistance on commercial terms or can count on the bilateral programmes of major donor governments to funnel financial resources to them on concessionary terms; African countries should be prepared to exercise initiative in pursuing this subject.

C. Supplementary and Compensatory Financing

99. The second session of UNCTAD continued to press for the further liberation of the terms on which short-term compensatory assistance can be obtained from the IMF to meet fluctuations in export earnings. The need for greater flexibility in the period for which these facilities are made available was accepted; in particular the desirability of relating repayments to the external trade position of the borrowing country as it emerges in subsequent periods was recognized. The question that now arises is whether the developing countries through the Executive Board of the IMF can secure agreement on further modifications of the rules governing this facility.

100. As regards supplementary financing, the second UNCTAD devoted more attention to examining the difficulties in the schemes previously proposed than to looking for possible solutions for those difficulties. The Conference, however, requested the Inter-governmental Group on Supplementary Financing to work out a scheme for presentation to the Ninth Session of the Board in September 1969. The responsibility for ensuring on behalf of the African region that agreed proposals will emerge now rests on the African members of the group - Chad, Ghana, Nigeria, Tunisia and the UAR. So far at its fourth session the Group has concentrated on identifying certain questions to which the UNCTAD secretariat, IBRD and IMF staffs are to supply answers. And the Group has planned its

fifth session to be its last. After that will come the task of getting the Committee for Invisibles and Financing, the Trade and Development Board and the Boards of the IMF and IBRD to recommend or adopt decisions. At each of these hurdles African countries will have to work so that the scheme is not indefinitely blocked.

101. At the time of the second session of UNCTAD, thinking among both developed and developing countries was moving towards a scheme of Supplementary Financing to be operated on the order of magnitude \$300 - \$400 million a year. These funds would be provided in the form of long-term loans to be made available at the most difficult moments to help countries to avoid periodic disruptions of their development programmes for balance of payment reasons. African countries, whose export earnings are subject to a higher than average degree of instability, therefore have a particular interest in seeing the early implementation of a scheme. It is to be recognized that African delegations at the Second Session of UNCTAD did not on the whole throw their weight as unreservedly behind the scheme of Supplementary Financing as would have been expected in the light of their economic circumstances. This was partly due to some anxiety that this scheme might be made a substitute for the more radical reorganization of international commodity trade which African countries desired. But now that the IBRD and IMF are moving to draw up serious plans on how to use their resources to assist in measures for stabilizing commodity markets, African countries should be able to adopt a flexible position on the scheme of Supplementary Financing.

#### D. Private Capital and Commercial Credit

102. The Second UNCTAD registered little advance in the efforts to deal once more with the problems of private capital and commercial credits. As regards the participation of private long-term capital in the total development assistance effort, the Conference had to leave unresolved the question which has always stood in the way of meaningful agreements between governments: how the governments of donor countries could realistically subscribe to a specific

aid target including a contribution from private capital in the absence of any domestic mechanisms for ensuring that private investors would in fact supply the differences between the aid target and the volume of public assistance granted during any given period.

103. Some attempt was made to quantify the present outflow of funds from the developing countries to service the liabilities arising from previous investments of foreign private capital in those countries. The orders of magnitude that were mentioned indicated that this reverse flow was one of the most important elements in the financial relations between developed and developing countries which had to be tackled in one way or another if the gross flow of new development assistance were to make a greater contribution to the development of the third world. There is no particular provision in the continuing work of the UNCTAD bodies for further efforts to find a solution to this problem. Taking into consideration all the advantages which developing countries admit to deriving from foreign private capital investments in their territories, and the insistence of some donor countries on maintaining an important place for private capital in their development assistance, thought has to be given to the most effective way for the Group of 77 to raise the issue of how to increase the net contribution of private capital to their economic development.

104. Private medium-term loans, often granted with the support of government guarantees in one form or another, were recognized by the Conference to be a major contributor to the increasing debt problems of developing countries and to the various disadvantages which are associated with tied aid. The decisions of the Conference held out little hope that much work would be undertaken within the continuing machinery of UNCTAD to find solutions to these problems. It was envisaged however that donor countries which participate in financing arrangements in support of particular countries' development programmes would try to harmonize the terms of their assistance. Previously there has been a tendency for donor countries to adjust the terms and conditions of their assistance competitively downwards to meet those of the least liberal lenders. It is

unclear how the machinery of the donor countries or of UNCTAD  
could best be utilized in the period between Conferences to  
reverse this tendency.

## CHAPTER IV

### INVISIBLE ITEMS INCLUDING SHIPPING

#### A. Shipping, Insurance and Tourism

105. The second UNCTAD made no progress in securing agreement on how to deal with the cost of shipping, insurance and other invisible items which have been recognized since the first UNCTAD to be one of the largest drains on the foreign exchange resources of developing countries. Owing to the prevalent lack of information the subject had received much less attention than was warranted by the importance of invisible transactions in the balance of payments of most developing countries. It was also apparent that the efficiency and availability of such services was a factor which critically influenced the ability of developing countries to expand their exports especially in competition with other producers of similar goods. The subject of the structure of freight rates and the practices of carriers continues to be particularly difficult to study in unambiguous quantitative terms, such as would facilitate the formulation of clear recommendations or decisions. The Conference had to content itself with requesting further studies whose success will in turn depend upon the co-operation of the governments and private concerns in the countries which provide the bulk of these services for the international trade of developing countries.

106. A resolution introduced by developing countries to secure the drawing up of international conventions on shipping practices was carried with the support of the socialist countries but against the unanimous opposition of the industrialized countries of the West. Inevitably, small developing countries, and the even smaller enterprises which operate the bulk of their external trade, are in a weak bargaining position when they try to secure better terms on shipping, insurance and similar services. A system of internationally prescribed norms to be uniformly applied by all carriers to all shippers under similar circumstances, would provide

the best guarantee that African exporters would obtain equitable treatment.

107. In the long run it was recognized that any really radical improvement in the position of developing countries with respect to their invisible transactions would require a greater participation by them in the provision of those services. Recommendations were made by the Conference for greater assistance to developing countries in the improvement of their shipping and insurance enterprises and of their ports. It was also considered that developing countries could earn more foreign exchange through tourism in order to offset some of their expenditures on visible trade and the other invisible imports.

108. It is obvious that for the most part African countries cannot make much headway in increasing their participation in the shipping and insurance fields, even where their export trade is highly organized, without greater co-operation among them for the development of merchant marines, airlines and insurance businesses. This calls for action at the local level among groups of neighbouring countries. The most important requirement at the international level is that the United Nations agencies, in particular the regional commission, should be put in a position to give more technical assistance to African countries in the organization of such enterprises.

#### B. The Transfer of Technology

109. This is also one of the less well-known aspects of the external economic relations of developing countries to which international attention has only recently been turned so that there was not a sufficient body of current thinking to support the second session in reaching any significant conclusions. These distinct, though inter-related, questions have come to the fore:

- (a) Developing countries which want to compete in the international markets for non-traditional exports, or even to produce such goods for domestic and regional consumption, cannot afford to be less efficient producers than others.

This often implies that they should also be technologically not too far behind producers in the developed countries. At the same time there is a wide-spread view that the technology employed in the industries of developing countries should be adopted to the relative factor supply position there, which is often quite different from the position in the already industrialized countries.

- (b) The presently important fact however is that developing countries are already importing large amounts of capital goods from developed countries. In the process they are paying, through initial prices, royalties, etc., for the technological innovations embodied in these goods. Typically, these innovations are the "intellectual property" of private concerns in developed countries and are protected by various monopolistic devices. Circumstantial evidence suggests, and the general feeling among developing countries is, that they are paying excessive, monopolistic, prices for the use of these innovations. The search is for an internationally agreed set of principles, or preferably some institutional mechanism, for reducing the cost of modern technology to developing countries.

In terms of economic arithmetic this is one element in invisible transactions and therefore an "UNCTAD question". But in terms of actual operations the question mostly arises in the context of industrial development projects and the purchase of engineering and transport equipment.

- (c) The third aspect of the matter concerns the international action that could be taken to facilitate the application of existing technology to solve the specific problems of developing countries in such fields as crop selection as well as in industry. This, together with the need for

the adaptation of technology mentioned above, involves yet a third group of specialists - and international agencies.

110. International discussion of this question has traditionally become immersed in the jurisdictional aspects often to the neglect of its substantive aspects. The second UNCTAD did not avoid this pitfall in considering this item on its agenda. It would seem that the most urgent task is for the UN community to straighten out the machinery for dealing with the various aspects of this question as a prelude to more effective work on its substance.

## CHAPTER V

### SPECIAL QUESTIONS

#### A. Economic Co-operation Among Developing Countries

111. The second UNCTAD devoted considerable time to discussing the role which increased co-operation among developing countries could play in accelerating their development. The importance of the subject was enhanced by the fact that not much success was being achieved in obtaining increased access to the markets of developed countries for the products of the industries and the agriculture of developing countries, or in obtaining commitments for an increase in the volume of financial assistance. The Conference recognized first of all that the establishment of arrangements for co-operation or integration among developing countries was a matter on which the initiative belonged essentially to those countries themselves, and in which the largest part of the action has to be taken at the local level in the light of specific circumstances. The contribution which the international community could give consisted mostly in enabling the UN agencies to extend technical assistance to regional groups in the various fields in which it was desired to co-operate. Secondly, some of the accepted rules of international trade have to be adjusted in favour of co-operating groups of developing countries. Thirdly, external financial assistance can be applied at strategic points to ease the difficulties that may arise in the extension of the economic, particularly the trading, contacts between developing countries.

112. From another point of view, however, it was recognized that some developed countries, especially those of the West, could assist or obstruct regional co-operation among developing countries by the way in which they manage certain aspects of their policies. In the field of trade some developed countries enjoy preferential advantages for their exports to some developing countries. These privileges could take precedence over advantages which might be granted to neighbouring developing countries. This applies particularly to

the association arrangement between the EEC and some African countries, which creates the situation that mutual concessions between such countries and other African countries cannot be put into effect until the rights of the EEC countries in those fields have been deliberately set aside with their consent. There are other similar situations in the African region though these may not be covered by explicit contractual agreements. The import trade of the African countries is in each case dominated by a few major sources of supply among the Western countries. In each case these existing interests can be expected to employ some methods of self-preservation, with the support of their governments, wherever the possibility appears that competing African suppliers might be granted commercial advantages within the framework of a scheme of regional economic co-operation. The developing countries tried, but were unable, to obtain a general undertaking from the developing countries that they would refrain from interposing their interests in this way against schemes of economic co-operation. On the contrary, the declaration of support for economic co-operation, which was produced by developed Western countries, emphasized the problem of injury to their trading interests.

113. Similarly, the aid policies of developed countries could be managed in such a way as to positively favour programmes of co-operation among developing countries. With various qualifications the developed countries accepted the desirability of using financial and technical assistance programmes to support economic co-operation. But their commitment was very far from definite, and it will require many intermediate stages before it can be translated into actual measures of support.

114. It would seem that, from the point of view of following up on these results in the African region, what is immediately required is to agree locally on a number of programmes and projects of co-operation including both trade measures and developmental. Only at that point will it be clear whether, and what sort of, international action is required to facilitate the implementation of such agreements.

B. The Landlocked Developing and the Least Developed Countries

115. Following the recommendations of the first UNCTAD a new convention on the transit trade of landlocked countries had been worked out. By the time of the second UNCTAD the focus of attention could be shifted from the legal and institutional to the implementational aspects of the problem. In particular, the cost of transport and transit services was considered to be a continuing impediment to the international trade of the landlocked countries which merited special measures. The recommendations that were made for the developed countries and international institutions to extend support to the improvement of transportation facilities serving the landlocked countries have created a permissive situation that would now have to be followed up by the drawing up of specific projects of transport development for the benefit of such countries.

116. The Conference also accepted that the landlocked countries encountered other peculiar problems in the process of their development and requested further studies on the subject. In view of the number of African countries that are involved the action required would be for the ECA Secretariat to participate to a substantial degree in this work.

117. One of the most important of the new lines of thought underlying the creation of UNCTAD and the whole evolution of international trade policies was that the rights and obligations of different countries should be related to their economic situation in some suitable manner; conversely, that countries at different levels of development need to be treated differently before the system of international economic relations can be considered to be equitable and adequate to the needs of development. In their meeting preceding the Algiers Conference of the Group of 77, African countries proposed the question of special measures in favour of the least developed countries as one of those to which special and priority attention should be given by UNCTAD. In the Charter of Algiers the developing countries identified the areas of policy in which action in favour of the least developed countries

could be taken. The second Conference however could not adopt a clear position on giving priority to the needs of the least developed countries the international trade or financial policies.

118. It would seem that essentially the follow-up action that is required is to prepare an adequate set of specific measures, including internationally acceptable programmes for the overall development of particular countries that are among the least developed, and to mobilize international assistance for their implementation. By any criterion the African region contains a large majority of those countries which can be considered to be among the least developed. It is accordingly proposed that the ECA should study, and promote implementation of, efficient measures to be taken in fields where the priority needs of the least developed countries might find acceptable recognition, including new efforts to render technical assistance to the countries in the formulation of projects and programmes. While this proposal is being adopted and carried out by the Commission, it will be necessary for African countries within UNCTAD and other international forums to keep this subject in the front of world attention.

119. It would appear that any attempt at a realistic international development policy for the Second United Nations Development Decade cannot avoid giving serious consideration to the problems of the least developed among the developing countries. It should therefore be incumbent upon the United Nations as a whole to collaborate in order to provide the various elements that will have to go into a positive policy aimed at implementing special measures for the least developed countries. In view of the global implications and importance of any programme in this field it would be reasonable to expect that the international community as a whole assumed responsibility for carrying such a programme to a successful conclusion. African countries should accordingly mobilize support, in the various organs of the United Nations, for the establishment of a Special United Nations Programme in favour of the least developed among the developing countries.