

COMMISSION OF THE EUROPEAN COMMUNITIES

COM(82) 803 final

Brussels, 3 December 1982

PREPARATION FOR THE
SIXTH SESSION OF THE UNITED NATIONS CONFERENCE
ON TRADE AND DEVELOPMENT
(Belgrade, 6 June - 1 July 1983)
- INITIAL GUIDELINES -

(Communication from the Commission to the Council)

COM(82) 803 final

The provisional agenda for the Sixth Session of the United Nations Conference on Trade and Development was adopted at the 24th meeting of the Trade and Development Board (TDB) in July 1982, despite the opposition of the United States.

The United States Delegation has, however, stated its readiness, in the OECD North-South Working Party, to cooperate with its Group B partners in seeking a common approach to the problems with which the Conference will be faced.

With a view to the establishment of a Community position for the debate, initially within Group B and subsequently in the UNCTAD preparatory committees, the Commission is proposing to the Council the guidelines sketched out below. In so doing, the Commission would like the Community to be able to put forward its position as soon as possible, in particular so that it will be known when the ministerial meeting of the Group of 77 is held in Buenos Aires in March 1983.

CONTENTS

	<u>Page</u>
I. The dangers to be anticipated	1
II. The background to UNCTAD VI	3
III. The major issues of UNCTAD VI	6
3.1 Trade	6
3.2 Commodities	9
3.3 Financial aspects (including the problem of the LLDCs)	12
IV. A plan for UNCTAD	17

I. THE DANGERS TO BE ANTICIPATED

UNCTAD VI will take place in Belgrade from 6 June to 1 July 1983, some six months after the GATT Ministerial Meeting and some three months after the ministerial meeting which the Group of 77 plans to hold in Buenos Aires in March.

UNCTAD VI will probably be the only major meeting of 1983 at which it will be possible for most themes of the North-South Dialogue to be examined comprehensively by all the members of the international community, the major items being international trade, raw materials, and monetary and financial questions (see agenda in Annexes 1 and 2).

The Belgrade Conference will take place in circumstances that will differ appreciably from those of previous UNCTAD sessions and will influence the positions and attitudes of all the participants, given that the crisis is hitting all the participants hard, from the north and the south alike, and is no longer considered a passing phenomenon. As a result, this Conference will offer a unique opportunity, at least potentially, to relaunch international cooperation which, though more necessary than ever today, seems increasingly to be blocked by the crisis.

Hence, too, the dangers overhanging UNCTAD VI: disappointed expectations or increased frustration. Those dangers are considerable.

Because of the seriousness and persistence of the crisis it is to be expected that :

- i) the developing countries will step up their demands and their appeal for international cooperation, if only to help them to cope with the most urgent problems, which threaten the continued development of some and for many others put at risk their social stability or even the survival of their population;

ii) the industrialized countries will restate the constraints standing in the way of the search for and acceptance of solutions involving substantial new concessions, notably in the areas of public financing and the opening-up of their markets.

Against this background, UNCTAD VI is in danger itself of being bogged down in the same way as the existing machinery for international coordination and the mechanisms being set up. This, at a time when such coordination is more necessary than ever.

Sorely tested by the crisis, it is becoming increasingly difficult for the existing machinery to cope with the stresses and strains engendered by it - in either the North-North or the North-South context. The preparations for the GATT Ministerial Meeting were an example of this, and the phenomenon is similar with regard to financial and monetary matters.

Unless this situation is remedied, it can only set back further those members of the international community that are the most vulnerable to the effects of the crisis and have very little possibility of falling back on purely national solutions to their difficulties.

The Belgrade meeting runs the risk therefore - unless appropriate action is taken in good time by the Community and Group B - of representing nothing more to the Group of 77 than a forum for the expression and repetition of unsatisfied global demands.

The Community and the Group B countries will consequently have a heavy responsibility to bear in Belgrade. They can help UNCTAD to set itself concrete, realistic objectives once again, which will be the subject of negotiations over the next four or five years, to focus its area of activities more specifically and to adapt its means of action to the changed context of the 1980s.

II. THE BACKGROUND TO UNCTAD VI

The UNCTAD agenda and the most recent discussions within the TDB show that there are no clear ideas as to UNCTAD's future work. In addition, there is no longer any real project in the pipeline on a par with earlier examples such as the Generalized System of Preferences, the Integrated Programme or the negotiations on the developing countries' debt.

This loss of dynamism is doubtless due largely to the profound changes that have taken place in the world economic climate. There is a widespread feeling that certain paths explored in the past are now blocked, that the old recipes have little left to recommend them and that certain approaches are now out of date.

When making any pronouncement concerning UNCTAD's future tasks one must bear in mind three major changes that have taken place in the world economy.

1. At the time of the first few UNCTAD sessions, when energy was available at a decreasing real cost, constant growth of world trade was taken for granted.

The problem faced at that time was how to adapt the system of international economic relations to provide a more favourable framework for the genuine integration of the developing countries. All the demands put forward by the developing countries under the heading of the new international economic order stressed this central theme.

Although the organization of international economic relations is far from satisfactory at the present time, it is the policies of internal adjustment that have become the urgent issue, for both the developing and the industrialized countries.

For many developing countries, the energy crisis, increased food dependence and in some cases repeated debt crises have served as a revelation, demonstrating the unsuitability in many cases of domestic policies in the new international context.

Although entitled "United Nations Conference on Trade and Development", UNCTAD is perhaps obliged today to give to the development aspect - i.e. the efforts to adapt domestic policies to this new context and the support those efforts deserve to receive from external sources - the importance that was hitherto given to the trade aspect in its analyses and debates.

2. The recession in the world economy is not confined to a low rate of growth in production and trade due inter alia to stagnating consumption in the industrialized countries. It also involves profound changes in the geographical structure and technology of production.

This is very clear in the industrial field, mainly on account of the appearance on the scene of the newly industrializing countries (NICs), but it is also apparent in the commodities field where, with a few exceptions, one can see an erosion of the market shares of traditional producers in favour of more efficient competitors newly arrived on the markets or - in the case of mining products - in favour of producer countries outside the Third World.

Such changes make it necessary to supplement, to a certain extent, the traditional approach of trade liberalization conceived almost exclusively in terms of concessions from the North to the South and that of commodity market regulation concentrating excessively on price stabilization.

3. Lastly, the scale and distribution of financing requirements and financial surpluses have themselves undergone profound changes, to which the international financial system has endeavoured to react instead of really adapting; the development of official funds for regulating and intervention fund purposes has not kept pace with the upsurge of private flows.

In any event, the scale and nature of the problems to be tackled - of which the indebtedness of many developing countries constitutes the most visible manifestation - are such that it is impossible to deal with them solely in terms of redistribution of income from the industrialized to the developing countries, except for those countries which are in practice excluded from the international financial system precisely because of their poverty and are obliged to count on official development assistance for some easing of the external constraints on them.

*

* *

This brief analysis of the economic situation - which should really be accompanied by a look at the political situation¹ - can help us to establish the main chapter headings for a consideration of the guidelines which UNCTAD VI could set for the future work of the organization, it being understood that their common purpose must be to bring about in concert the manifold internal and external adjustments that are essential if a way out of the crisis is to be found.

Considering in turn the problems of trade, commodities and development funding, this Communication sets out to propose the broad guidelines which the Community could follow in the preparatory work for UNCTAD VI. These broad guidelines will then be fleshed out in greater detail in the specific working papers further to this Communication as the preparatory work advances in the Council, in the OECD framework and within UNCTAD itself.

¹ It must be remembered that the political situation accounts for a very considerable drain on resources (refugees, victims of conflict, etc.) which would otherwise be available for the economic and social development of the developing countries.

III. THE MAJOR ISSUES OF UNCTAD VI

3.1 Trade

UNCTAD VI is being prepared at a time when, for the first time since the thirties, there has been a decline in the value of world trade from one year to the next. Unless the recession gets worse and is prolonged, with protectionist pressures increasing, the major features of the world trading system in the eighties will be dominated firstly by the dynamics of the process of economic recovery in the industrialized countries and by the way in which the three major trading powers (North America, Western Europe and Japan) intend to manage their economic and trade relations. The emergence of the NICs is another factor which must also be taken into account.

The maintenance of an open multilateral system depends on the ability of the trading powers to control the consequences of the recession, to revive the world economy and find balanced solutions to their trade differences.

Although not fundamental, the North-South aspects of this problem are none the less important.

In the seventies the trend of trade was marked by the developing countries' growing participation in world trade in manufactures, which was reflected in :

- i) NICs' dynamism, expressed through the steady increase in their exports and the wider range of products exported;
- ii) the emergence of a new wave of exporting developing countries, in Asia, Latin America and the Mediterranean : more than fifty developing countries today export significant amounts, against half that figure in the sixties;
- iii) the development of South-South trade.

Another feature was the absence of many developing countries, including the LLDCs, from this process of integration.

In this context, the approach to North-South trade problems adopted in the early seventies (non-reciprocity, non-differentiation between developing countries, GSP) must be reconsidered.

Firstly, because the diversity of regional situations and the increasingly differentiated levels of the developing countries' economic development mean that solutions must be tailored to specific situations.

Secondly, the progress made at the multilateral level on tariff dismantling by the industrialized countries, particularly the Community, mean that tariff matters are of relatively secondary importance today; the main issue is that of the conditions governing effective market access.

The North-South trade problems of the eighties therefore vary according to which part of the "South" is concerned :

For the most industrialized developing countries the major issue is complete integration in the multilateral trading system, with all the attendant rights and responsibilities. How can these countries be brought, without interrupting their momentum, to adopt economic, industrial and trade strategies more compatible with the maintenance of an open multilateral trading system (policy on the division of national revenue between investment and consumption, the opening up of their markets, tariff dismantling, etc.).

For low- or middle-income developing country exporters, which more often than not have sizeable domestic or regional markets in neighbouring countries, the example of the NICs (particularly those in Eastern Asia, whose development was initially based on export strategies aimed at the industrialized countries) cannot be followed without serious dangers. The choice of appropriate strategies - between development of domestic and external markets, between South-North trade and South-South trade - is therefore fundamental.

For countries which are not very well integrated in the international trading system, particularly the LLDCs, the problem is not merely one of North-South trade arrangements. There is also the important matter of starting up an industrial process which is not only competitive in world terms but is also, above all, backed up by a reinforced domestic market and agricultural base. The important thing is therefore to seek international measures designed to promote the processing of their commodities, the establishment of regional common markets, and so on.

From this analysis, two key ideas emerge for the Community :

1. Ways must actively be sought of promoting the development of South-South trade, in particular by putting trade relations between countries in the South on a preferential basis.
2. It should be borne in mind that, in the period of intense adjustment it is currently going through, the Community, which is, and intends to remain, the trading entity most open to competing imports from the developing countries, has limited room for manoeuvre to achieve further progress in the liberalization of trade at the multilateral level.

As emphasized in the Memorandum on the Community's development policy, the Community must respect the commitments which have been undertaken within the global agreements reached with a number of developing countries, while at the same time endeavouring to widen progressively the network of liberalized trade to other regions of the Third World according to the intensity of the economic links (existing or to be developed) with the various developing countries or groups of developing countries concerned.

3.2 Commodities

The commodity agreements concluded so far, despite unqualified support from the producer developing countries and the attachment to them of many industrialized countries, including the Community, have not always been able to attain their principal objective, namely that of stabilizing prices.

This in 1981 the products covered by such agreements - coffee, cocoa, rubber, tin, sugar - are among those whose prices dropped sharply, just as they had risen dramatically in the period 1975-79, although it should be noted that these agreements have helped limit the fluctuations considerably, despite often inadequate resources.

Furthermore, although a new type of agreement has been signed (jute) and progress made on certain other commodities (tea, bananas, hard fibres, tropical woods), the fact remains that for many agricultural or mineral products of importance to world trade there is hardly any prospect in the medium-term of international agreements being concluded.

Perhaps the time has come, while reaffirming the Community's attachment to the Integrated Programme (conclusion of commodity agreements between producers and consumers, establishment of a Common Fund), to re-examine the content and machinery of these agreements in the light of the experience gained, of the trends relating to the geographical distribution of production and the economy of the products, and also of the features peculiar to the individual commodity.

Geographical distribution of activities

The seventies were marked by a radical worldwide redistribution of raw material production and export activities.

The industrialized countries' growing share of mineral extraction has generally been paralleled by a decline in the activity of a large number of developing countries in both the mining sector and most major export crops. Deterioration of the machinery of production, caused by inadequate investment, competition from substitute products and competition from other Third World producers - all these factors have combined to produce a significant decline in the world market shares of traditional exporter countries (often a decline in absolute terms).

In the case of these countries the problem is therefore to reconstitute their production and export capacities by the best possible combination of external official (multilateral or bilateral) or private financial assistance, national development, agricultural and mining strategies, and international agreements enabling them to maintain or regain a satisfactory share of the world market.

The commodities

It is in the case of the major tropical products (coffee, cocoa, tea, sugar) that the outlook for the next decade is gloomiest as regards prices. The policy of extending plantations, which was encouraged by the high prices in the period 1975-79 has led to medium-term surpluses of supply over demand. If this fundamental imbalance persists, it is clear that the international agreements will find it difficult to prevent prices from falling in real terms.

The international community should therefore aim, without interfering with long-term market trends, to limit erratic fluctuations to a greater extent, while backing up the agreements with machinery enabling those countries which are most dependent on exports of such commodities to cope, if need be, with a drop in their export earnings and, more generally, to increase the added value of their products and diversify their product base.

In the case of mining products, the basic problem is the fact that the developing countries, particularly those in Africa, are lagging behind with regard to investment. The international community should therefore concentrate mainly on seeking ways of obtaining adequate financing for mining investment in the developing countries. In the mutual interest of the partners concerned investments will have to be safeguarded and a return on them assured by reducing the uncertainty surrounding the trend of prices for mining products.

3.3 Financial aspects (including the problem of the LLDCs)

More smoothly functioning arrangements for international financing and the recycling of capital between surplus and deficit countries (the latter being the category into which the bulk of non-oil developing countries fall) are an essential condition for a return to growth, first of all for Third World countries and, following from that, for the world economy.

Transfers to the developing countries must not only be sufficiently large (the volume aspect) but must also make a net contribution to the countries concerned in terms of growth and development; the effects of inflows on production, saving and exports must more than compensate for the drain on internal resources resulting from outflows (interest payments, repatriation of profits, etc.). The extent to which transfers are put to good use, i.e. facilitate the necessary structural adjustments, is crucial in this respect, as are the financial characteristics of transfers, notably rates of interest on loans.

In this context a distinction must be made between the countries mainly dependant on ODA (low-income countries, notably the LLDCs) and those for which financing on market terms plays a key role: the problems - and the solutions - are different in each case.

Financing problems of the LLDCs (and of other low-income countries)

These countries suffer from structural deficiencies which limit opportunities for investment providing a speedy return. Consequently, they attract hardly any private flows and are almost wholly dependent on a single source of financing, namely ODA. In practice, the volume of the latter places a ceiling on their imports, investment and, indirectly, their growth rates.

The LLDCs and other low-income countries are the first casualties of the current trend to reduce overall aid. Only a substantial increase of ODA to these countries (as advocated, so far as the LLDCs are concerned, in the guidelines adopted at the Paris Conference) can help them to avoid being reduced to a purely marginal role in the world economy and give them a chance of "taking off" in due course. For this reason the need to increase the overall amount of ODA and to direct it specifically to the LLDCs is today more pressing than ever, contrary to the current tendency to pay greater attention to commercial motives in the choice of recipient countries (mixed credits).

If the increased aid is not to be open-ended and is to be used to best effect, it must be focused on the most serious bottlenecks (training, agriculture and energy) and must be dovetailed with appropriate internal policies geared to structural adjustment. This is the approach that is being followed in the food strategies operation.

In this context, a leading part must be reserved for the multilateral aid institutions, notably IDA, as the latter not only concentrates on poor countries and such priority sectors as agriculture but also can help set in train structural adjustment programmes. For these reasons, it is a matter of the utmost priority that IDA's aid capacity be strengthened or, at the very least, maintained.

Financing problems of middle-income developing countries

In the second half of the preceding decade these countries more or less managed to keep up their imports and growth rates by resorting to bank borrowing on a massive scale, but today the situation looks quite different: there is a slowing-down in the growth of credit advanced to the developing countries, and this could result, when allowance is made for debt-servicing costs, in a tendency for net banking flows to dry up.

This situation is explained by three factors which have repercussions on the indebtedness of the developing countries and affect adversely their creditworthiness and borrowing capacity :

- i) the drop in the real return on capital in the developing countries, resulting from inadequate internal adjustment and also from an unfavourable climate (high oil costs, low growth and protectionist pressures in the industrialized countries, and so on);
- ii) the restrictive, anti-inflationary monetary policies pursued by the industrialized countries, especially the United States, which result in very high real interest rates on debts denominated mainly in dollars;
- iii) the structure of the developing countries' debt, which increasingly consists of short-term commitments, resulting in exceptionally high refinancing requirements.

Hence, any increase in net flows of bank credit to the middle-income developing countries depends on :

- i) better prospects for growth and exports in the countries concerned, deriving both from their own structural adjustment efforts and improved performance of the world economy;
- ii) a drop in world interest rates and an improvement in the terms of trade, which alone can in the short term restore to the countries in question some scope for manoeuvre in financial terms;

- iii) the possibility of rescheduling the developing countries' debt, shifting the burden to longer-term commitments;
- iv) confidence on the part of the banking community in the capacity of the world's monetary authorities to manage any debt crises.

It is clear, therefore, that a satisfactory flow of transfers of resources to the middle-income developing countries presupposes conditions which to a large extent lie outside the financial sphere proper. There is much that can be done in the financial sphere, however, to strengthen the process as regards quantity and quality. Possible measures in this connection to provide a more secure climate for bank flows and to direct and back them up were spelled out in the Commission staff paper entitled "World economic imbalances and financial aspects of North-South relations" (SEC(81)509).

Briefly, they boil down to the general guideline increasingly endorsed by observers of the international financing system: the banks have a very important part to play in funding the developing countries' external deficit and they must be helped to play this part, while still shouldering their specific responsibilities. The fact remains that the relative importance of bank flows has grown excessively since 1974. A bigger role now needs to be allotted not only to more stable forms of private capital (for example, direct investment) but also to official flows - mainly multilateral and non-concessionary - for the purpose of supporting structural adjustment policies.

Progress in this direction is essential :

- i) initially, in order to avoid a rush to indulge in sterile and dangerous deflation, the inevitable consequence of inadequate external resources;
- ii) in the longer term, in order to contribute to healthy growth, uninterrupted in particular by debt crises.

*

* *

Generally speaking, although it might be tempting to become resigned to seeing aid efforts stagnate, or even contract, because of the recession, it is essential on the contrary to recognize that stagnation is itself a source of the appreciable aggravation of the world recession and could soon have even graver consequences if the trend is not speedily reversed.

IV. A PLAN FOR UNCTAD

The question to be answered concerns the purpose of the discussions and negotiations to be held in Belgrade and of their follow-up within the UNCTAD framework.

The basic idea behind the general guidelines proposed above is a conviction that the worsening of the economic situation of the developing countries and the increasing marginalization of the poorest countries is directly related to the persistence and deepening of the world recession.

Without going so far as to maintain that recovery will come through the Third World - since the way out of the crisis depends first of all on the difficult and painful structural adjustments that are in progress in the industrialized countries - the Community should endeavour to convince all its partners in the industrial world of the urgent need to relaunch North-South cooperation in order to prevent the difficulties of the South leading the world economy into a deep depression and, in the longer term, to find ways of re-establishing, to the mutual benefit, the conditions that will permit the developing countries to develop.

It is in this spirit, and this spirit alone, that it would be possible to make UNCTAD VI the occasion for a joint reflection on the crisis and on ways of pulling out of it together, and to adopt there the broad guidelines to be followed subsequently, in the various bodies such as UNCTAD, by the North-South negotiations with the aim of facilitating a new impetus in the development of production and trade and putting a stop to the process of marginalization of the poorest.

In this context, and with regard to the future role of UNCTAD itself, it would be useful if a practical work programme could be drawn up at the Sixth Session for the next few years.

In Belgrade, the industrial world must impress on the Group of 77 the need to be realistic and to work for the mutual interest. It must also call on the Eastern-bloc countries to demonstrate a greater sense of their responsibilities towards the developing countries. It would have no chance of being heard if, against its own interests, it were only to invoke the difficulties of the moment in order to put off the necessary efforts until a later date.