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Trade and International Inequality

SIDNEY WELLS

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SIDNEY WELLS is a Lecturer in Economics at the University of Sussex.

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FABIAN SOCIETY,
11, Dartmouth Street, S.W.1.

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1. The Problem

ONE hundred years ago it was possible to argue that the growth of what were then the developed nations of the world was having a clearly beneficial effect upon the exports, and hence upon the growth of developing countries.

In the ninteenth century demand expanded rapidly in the 'industrial' countries—at that time these consisted of the United Kingdom, Western Europe, and the eastern seaboard of the United States; expansion in these countries, by causing an increase in their imports of raw materials and foodstuffs from the lands of recent settlement, had the direct effect of raising output and hence incomes in the latter countries. As Denis Robertson once expressed it, "trade was an engine of growth". The trading pattern which emerged was one in which the export products of the mines, forests, and plantations of the lands of recent settlement were exchanged for the manufactures of the developed nations.

In this situation, the volume of world trade expanded in step with the growth of output; indeed in the nineteenth century there is evidence that trade grew faster than output. Between 1850 and 1913, the volume of world trade is estimated to have increased tenfold, while production increased only fivefold.

In the twentieth century, however, this situation has radically altered. Since 1928, not only has world trade risen more slowly than output, there has also been a remarkable change in the pattern of international trade. World trade has become increasingly segmented, so that today over 40 per cent of world trade is between developed industrial countries; only 10 per cent takes place between non-industrial countries.[1] What is more, since the middle nineteen-fifties the share of developing countries in world trade has been fairly continuously falling. In 1950, exports of these countries accounted for 32 per cent of world exports; developed capitalist economies for 60 per cent. By 1955, developed capitalist economies accounted for 64 per cent of world trade, developing countries for only 26 per cent. By 1962 the share of the developing countries had fallen even farther; it then stood at 21 per cent, as against a share of 66 per cent held by developed capitalist economies.

Although output in industrial countries has been advancing vigorously, this advance has not been communicated to the less developed parts of the world (in which, incidentally, live two-thirds of the world's population). Indeed, the relatively slow rate of growth of the poorer nations of the world is perhaps destined to be the number one interna-

[1] One of the best short surveys of the changing pattern of world trade over the last hundred years is to be found in Ragnar Nurkse, *Patterns of World Trad and Development* (Wicksell Lectures, 1959), Basil Blackwell, Oxford, 1962.

tional economic problem of the second half of the twentieth century.

There are many reasons why demand for the products of less developed countries has grown so slowly; some of these are due to the nature of the goods which developing countries have traditionally exported to the industrialised nations. At the present time about 29 per cent of the exports of developing countries consist of foodstuffs; 30 per cent consist of fuels, and 26 per cent of crude raw materials. Exports of manufactures (and these consist largely of base materials), account for only 15 per cent of the aggregate value of their exports.

In recent years demand for foodstuffs has grown less rapidly than demand for manufactured goods, or raw materials. Industrialised nations of the west are, in many cases, now at a point where their citizens wish to spend only a relatively small part of their increased incomes upon foodstuffs, especially basic foodstuffs of the type exported by developing countries. Moreover present-day food consumption often takes on a more sophisticated form than in the past. Foodstuffs are elaborately processed and packaged; they are often consumed in restaurants or hotels. This means that although in some cases consumers' total expenditure on foodstuffs is rising, the expenditure on the raw material element of the foodstuffs is growing only relatively slowly. But more important than this is the fact that the industrialised nations are now very much more self sufficient in basic foodstuffs than they were even twenty years ago. Crop yields in industrialised countries of the west have risen very much more rapidly than in the traditional less developed primary producing countries.

This trend is partly the result of purely technical factors, for example, the use of fertilisers, more efficient methods of agriculture, and the consolidation of holdings; it is doubtless also in part the result of deliberate protectionist policies.

Not only have the developed nations become more self-sufficient in foodstuffs, their demand patterns have changed in such a way that there have been substantial changes in demand for raw materials. Modern methods of production usually mean that the raw material imputs become relatively less important in relation to final output.

Since the war there has also been a very marked growth in the use of synthetics for natural rubber. For example, in 1952 the U.S. imported 803,000 tons of natural rubber. By 1962 these imports had fallen to 413,000 tons. Over the same period imports of synthetic rubber into the U.S.A. grew from 807,000 tons to 1,256,000 tons. In 1952, world consumption of cotton accounted for 73 per cent, and synthetics for only 1.4 per cent of world consumption of fibres. By 1962 cotton accounted for only 65 per cent, but synthetics for over 7 per cent of world consumption. In the United Kingdom, ten or so years ago, the percentages of natural and man-made fibres used in apparel manufactures were respectively 80 per cent and 20 per cent; by 1962 these ratios were 64 per cent and 36 per cent.

Substitution for natural leather in footwear has also been quite remarkable. In 1947, 79 per cent of footwear made in the United Kingdom

utilised natural leather; by 1962 this percentage had fallen to a mere 18 per cent.

The combined effect of the declining importance of foodstuffs in world trade, economies in the use of raw materials, and the widespread substitutions of synthetics for natural products has had a seriously adverse effect upon the exports of developing nations.

The inevitable result of these trends has been a marked deterioration in the balances of payments of the under-developed nations. According to the United Nations *Yearbook on International Trade Statistics,* less developed countries as a group in 1938 had a surplus of $79 billion;[2] by 1960 they were running a deficit of $1.5 billion. The year 1960 was by no means exceptional, for in each year since 1956, the developing countries' deficit has been at least $1 billion; moreover, if we eliminate the oil producing countries, which normally run a trade surplus, the deficit of the rest of the developing world is very much greater.

A large number of developing countries, quite rightly, are engaged upon massive development and industrialisation programmes. These programmes, when they come to fruition, will undoubtedly be a source of economic strength to the countries concerned, but in the short run, a serious added strain will be imposed upon their balances of payments.

Various attempts have been made to assess the likely balance of payments deficit of the developing world at the end of the present decade. As long ago as 1956 the G.A.T.T. made some tentative quantitive estimates of the developing countries' deficit—indeed a great deal of pioneer work on the so-called Prebisch Gap was carried out at the G.A.T.T. Secretariat.

More recently the U.N. statisticians have taken over the task of trying to measure the likely future payments deficit of the developing countries. They take as their starting point the U.N. Development Decade target—a minimum annual growth rate of aggregate national income in the developing world of 5 per cent. To achieve this modest target the aggregate gross domestic product of the developing countries (at 1960 prices) would by 1970 have to rise from a total of $170 billion to $277 billion. Gross fixed investment will have to increase faster than 5 per cent per annum; this would entail substantially increased imports of raw material, machinery, and equipment. On the basis of experience during the 1960s, the U.N. experts assume that to achieve the target, imports of primary commodities into developing countries would have to increase from the 1960 level of $4.9 billions to $9 billions; imports of manufactures and base metals would also need to increase. Total imports would increase by $19.5 billion. In order to finance this increase in imports, very large increases either in aid or in exports will be required. Taking into account increased sales to centrally planned economies, and on the basis of a 3.7 per cent per annum growth rate in the capitalist economies of the West, the U.N. experts estimate that the deficit in the merchandise trade balance of the

[2] Billion—thousand million.

developing countries will rise from $1.5 billion in 1960 to about $11 billions in 1970.

In addition to this, the net deficit on invisibles of developing countries is expected to rise from $3 billion in 1960 to $9 billion in 1970. Thus, their current account deficit might well rise from $5 billion in 1960 to about £20 billion in 1970. These estimates are clearly only guides. A faster rate of growth in the developed countries would reduce the gap. On the other hand a deterioration in the terms of trade in the developing countries would increase it. However, the estimates quoted do give some idea of the magnitude of the problem; a magnitude which it is perhaps easier to get into perspective when we remember that the total annual outflow of capital from developed to less-developed countries in recent years has been rather less than $8 billion.

2. What the Developed World can do

NO single policy measure will automatically close the huge and widening gap with the developing countries. Almost certainly, progress to achieve the objective of the Development Decade will need to be made on several fronts simultaneously. In the first place, if developing countries are to implement their growth programmes, they will require a guarantee of a more substantial flow of investment funds than they have been receiving up to the present.

Between 1956 and 1962 the annual flow of capital from the member countries of the O.E.C.D. increased from $5.6 to $8.4 billions. These sums sound impressive, but they include private investment, normally undertaken for purely commercial reasons, and expressed as percentages of national incomes of the providing countries, in very few cases did the flow of official funds to the developing countries amount to more than 1 per cent of the national incomes of providing countries. Moreover in 1962 the U.S. were still providing over half the total of official capital aid, a share which had not changed for several years. Although aid and the development burden has been spread more widely in recent years, there are clearly still a number of countries which have not yet measured up to their responsibilities in providing funds for development. In the case of the United Kingdom, official aid in 1962 amounted to 0.65 per cent of national income, but if private investment is included, the total is equivalent to 1.2 per cent of national income. There was a falling away in direct investment by the U.K. in 1963, and at present the combined total is down to 0.9 per cent of the national income.

The U.N. target is a flow of capital, including private investment, of 1 per cent of combined gross domestic product of economically advanced countries; this was agreed upon no less than four years ago. Part of this 1 per cent will, of course, be provided by private effort, whether in the form of direct investment by firms or of portfolio investment by firms and individuals.[3]

Something can be done to encourage private investment, by means of such bodies as the British Commonwealth Finance Company, which brings together private capital with the specific purpose of financing economic development in Commonwealth countries, and the German Working Group for under-developed countries set up by industrial and trade associations in the Federal Republic.

On their part, developing countries can encourage direct investment by the pursuit of economic and political policies which provide an assur-

[3] Direct investment takes place when a parent firm sets up a branch or a controlled subsidiary in another country; this form of investment has been quite substantial in recent years.

ance to foreign investors that invested capital will not be exposed to undue political uncertainty and discrimination.

It is, however, arguable that at the present time the great need is for loans to developing countries at relatively low rates of interest. In the recent past private investment in these countries has been falling, largely because developing countries cannot afford to carry the very heavy burden of servicing their mounting external debts. From this point of view a welcome should be given to the decision of the International Bank for Reconstruction and Development to channel more finance through the International Development Association.

A further difficulty in regard to private investment arises from the fact that simply because they are growing so much faster the high income developed countries are very attractive to firms setting up overseas branches and subsidaries.

Probably for some years to come the vast bulk of foreign investment in developing countries will be provided by multilateral agencies, such as the International Bank for Reconstruction and Development (I.B.R.D.), The International Development Association (I.D.A.), the Inter-American Development Bank, and the European Development Bank. Some of these agencies are world-wide in their operations, others have a more limited sphere of influence. All would gain from a closer co-ordination of their activities and aid programmes.

Although investment is a pre-requisite of development, it should be remembered that of itself investment aid cannot work miracles. In particular its effects can be almost wiped out if prices realised by exports of developing countries on world markets are subject to sharp falls. The effect of even a mild recession in the industrial countries of the world can be seen from the fact that according to the United Nations, the recession of 1957-8 meant for developing countries a loss of import capacity equivalent to about six years lending by the I.B.R.D. to under-developed countries (at 1956/7 rates).[4]

Export Earnings and Commodity Agreements

For a very long time to come foreign exchange receipts of developing countries will be dependent upon exports of primary products. As we have seen, in recent years, demand for these products has risen more slowly than for manufactures. A further problem arises from fluctuations in world prices, and hence export values of agricultural products. In the years between 1953 and 1961 the annual average percentage variation in export prices for all agricultural products together was over 10 per cent. Fluctuations were particularly violent for raw materials, with natural rubber (16.1 per cent) and cotton (12.8 per cent) leading the way. In tropical foodstuffs, cocoa (upon which several economies depend for a very large part of their total export earnings) led the way. For sugar, the average annual variation in export values was over 9 per cent.

[4] U.N. World Economic Survey, 1958.

The effects of these price fluctuations can be mitigated in at least two ways. Firstly, prices can be kept relatively stable by the negotiation of world commodity agreements; secondly, fluctuations in export earnings of primary products can be in part offset by schemes of international export insurance. Under such arrangements, countries whose export proceeds have temporarily dropped as the result of price and demand fluctuations are "compensated" out of an international fund set up for the purpose.

As regards commodity agreements, most of these are designed not only to iron out fluctuations but also to maintain prices and/or producers' incomes at a level higher than those which would prevail on a free market. As long ago as 1947 the United Nations set up a body known as the Interim Co-ordinating Committee for International Commodity Arrangements (I.C.C.I.C.A.), charged with the duty of convening inter-governmental commodity conferences where a free market might have had "serious adverse effects on the interests of producers and consumers". A number of such conferences have been held, the most recent of which was the ill-fated Cocoa Conference, which broke up without reaching agreement early in 1964. As the result of United Nations efforts since the war, agreements have been established for wheat, tin, sugar, olive oil and coffee. These agreements have achieved varying degrees of success.

Most commodity agreements have resulted from negotiation between exporting and importing governments. A price (or more commonly a range of prices) is determined and within this price range fluctuations are permitted. In some cases, e.g. wheat, assurance of access by exporting countries to importers' markets is also guaranteed by the agreement.

The form taken by price stabilisation varies. It can consist of a restriction of output or the laying down of export quotas or of both together. Alternatively, any excess production at a given price might be used to augment a buffer stock; this has been the case in the Tin Agreement, which has resulted in the building up of a buffer stock (supplemented at one time by variable export controls). Between 1956 and 1964, the market price for tin only twice (in 1961 and 1963), rose above the agreed "ceiling" price, and only once (in September, 1958), did it drop below the "floor".

The Sugar Agreement, on the other hand, has not worked quite as smoothly, the price of sugar being much more volatile and having risen to a point far above the agreed "ceiling" in 1957, and fallen well below the "floor" in 1961.

Commodity agreements have undoubtedly helped to cushion some developing countries against the worst effects of price fluctuations. But by their very nature they are limited in their effectiveness. They can embrace only a relatively few commodities; neither are they easy to negotiate, as witness the failure of the Cocoa Conference. After a discussion of the subject of commodity stabilisation agreements in 1958 the G.A.T.T. experts, in their report *Trends in International Trade*, concluded that "one should not expect any dramatic change in international commodity policy. There are real obstacles in the way of rapid international progress in this field".

Export Earnings and Compensatory Arrangements

Of recent years there have been growing interest in alternative means of stabilising the export earnings of less developed countries, notably by means of international compensatory financial agreements. One justification for these arrangements lies in the fact that for many developing countries instability of export earnings creates real problems for their balances of payments and hence their development programmes. Moreover, the consequent periodic cutting back of imports by developing countries has an adverse effect on the exports of developed countries.

A number of proposals for some kind of international insurance policy have been mooted in the last few years. Some are limited to a certain geographical area, e.g. the Latin-American proposals; others are broader in scope and attempt to solve the problem in a world setting. Such plans vary in detail, but essentially they involve the building up of a fund, by annual premiums, perhaps supplemented by initial subscriptions. This fund would be drawn upon by participating countries when their export proceeds in a given year failed to reach the average of a given preceding period, e.g. the previous three years. In some proposed schemes a drawing country might receive full, and in others only partial, compensation. If during the subsequent year the export proceeds of a drawing country recovered, the amounts drawn would be repayable in full or in part. If, however, by the end of a given period (say three years) export receipts had not recovered, the amount advanced would be written off.

It has been estimated that if a scheme on these lines had been operating in the ten-year period 1953-62, the 26 developing countries most likely to have used the resources of the fund would have withdrawn $7 billions. But of this, $3.9 billion would have been repaid, following the subsequent recovery in the export earnings of the drawing countries. Only $2.5 billions would in fact have been written off.[5]

The average net cost of write-off under such a scheme would have been equivalent to about 5 per cent of the financial aid granted to developing countries over the period.

Of course schemes of this kind can be criticised. In particular they cannot help in the event of a long-term deterioration in demand for the exports of a single-product economy. Neither can such schemes be of much help to a developing country like India, which produces a wide range of export products, the prices of which fluctuate only moderately. The arrangements could be abused in that they contain no guarantee that finance received as compensation would, in fact, be devoted to maintaining the national development effort. Compensatory funds might well find their way into the hands of already wealthy exporting interests, and merely be devoted to maintaining profits rather than the level of development in

[5] See Garda Blau, *Commodity Export Earnings and Economic Growth;* and A. G. Hart, *Fluctuations in Commodity Earnings: A System of International Compensation,* in *New Directions for World Trade*, Chatham House, 1964, which provide a very useful review of proposed international export compensation schemes.

the economy. But as a device for offsetting some of the adverse effects of the caprices of the market the schemes have much to commend them.

Most proposals for international compensatory finance have assumed that the arrangements would be additional to the normal assistance provided by the I.M.F., which itself has given some attention to the special financing problem of developing countries.

As early as 1960 in response to a request from the United Nations Commission on International Commodity Trade, the Fund explained its policies and procedures bearing on this problem.[6]

The Fund made it clear that the provision of short-term exchange to compensate for fluctuations in the balances of payments of members was a legitimate use of its resources, but it insisted that a suppliant member's policies must be such that it could expect to overcome its difficulties within a reasonably short period of time. The Fund also insisted that it would be neither practicable nor desirable to make the amount of such assistance dependant upon any automatic formula. This somewhat *non possumus* attitude was severely criticised in many quarters, and in 1963 a further statement was elicited from the Fund. This drew attention to the increased use of its resources by developing member countries.[7]

The Fund went on to promise that where necesasry it would give sympathetic consideration to requests for enlargements of quotas for "less-developed" members, in the light of fluctuations in their export earnings. Furthermore, it promised that not only would drawings within a member country's "gold tranche" continue to be virtually automatic, but that the Fund would follow a liberal policy in regard to the higher credit tranches, provided the member country co-operated in an effort to find appropriate solutions to its balance of payments difficulties.

Although the Fund has relaxed a little in its attitude it still places financial orthodoxy high on its scale of priorities. Nothing it has said or done is likely to prevent primary producing countries which suffer from fluctuations in their export earnings from feeling compelled from time to time to restrict their imports or to slow down their development programmes in order to safeguard their reserves. The attitude of the Fund on this subject does suggest that a considerable overhaul of its machinery is required. It will be the duty of the Labour Government to press for such reforms, and to urge other forward-looking nations to achieve the long overdue reform of the I.M.F.

Reforming the I.M.F.

Here we are not concerned with arguing the general case for more international liquidity; indeed the need to expand the supply of international means of payment is now widely, although not universally, accepted. In view of the fact that between 1950 and 1960 the ratio of

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[6] *Fund Policies and Procedure in Relation to the Compensatory Financing of Commodity Fluctuations.* I.M.F. Staff Papers, Volume 8, 1960-61, pp. 1-76.

[7] *Compensatory Financing of Export Fluctuations.* I.M.F., 1963.

world reserves to world imports fell from 81 per cent to 50 per cent (and in the early 1960s a much smaller percentage of those reserves was in the form of gold than a decade earlier), the case for a general expansion of world liquidity is difficult to resist. But the trade difficulties of the developing countries make the case for reform all the stronger.

Many proposals for the reform of the international payments mechanism have been canvassed in recent years, ranging from a modest increase in I.M.F. quotas to a radical creation of brand new international purchasing power. Perhaps the proposal which has attracted most attention is that of Robert Triffin, who has suggested that a revised I.M.F. (I.M.F.X.) should be empowered to create (or destroy) new purchasing power by the purchase (or sale) of government securities. In this way the I.M.F. would act as a true international Central Bank.

As a means of providing assistance where it is most needed, there is, however, much to be said for an alternative set of proposals, first suggested by the Hon. Maxwell Stamp, first published in the *Guardian* in 1960. Subsequently proposals have been modified,[8] but basically they aim at putting additional purchasing power into the hands of developing countries.

Stamp originally envisaged that some $3 billion of additional purchasing power would be created by the issue of fund certificates over say a twelve-month period. All of these certificates would be passed on to the developing countries, perhaps through an additional leading agency such as the I.D.A. Each member of the Fund would accept these certificates when tendered by the Fund or by a Central Bank of a member country. They could be exchanged into any convertible currency.

In this somewhat radical form the Stamp proposals were hardly likely to be acceptable. Accordingly, to make them more attractive to orthodox financial interests, Stamp suggested that certain countries which are suffering from inflation might be allowed to opt out of accepting these certificates. He has further suggested that Fund certificates could be lent, not given to developing countries. Such certificates might be loaned for a fifty-year period, during which time the I.D.A. would pay interest on them. In his modified proposals, Stamp also accepted that some limit might reasonably be placed on the extent to which fund members were automatically obliged to accept certificates, which might indeed carry a modest rate of interest.

One of the attractions of the Stamp plan is that it would both ease the problem of world liquidity, and at the same time provide much needed assistance to developing countries. Triffin's proposals, on the other hand, would in the first instance provide developed nations with additional purchasing power.

But these proposals, although desirable in themselves, will not go very far towards solving what is perhaps the basic problem of developing countries, that is increasing their export proceeds.

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[8] *Moorgate and Wall Street*, Autumn, 1962.

3. Traditional Exports

THE traditional exports of primary producing countries fall broadly into two groups, agricultural foodstuffs and raw materials. Foodstuffs can be sub-divided into three groups. Firstly there are those foodstuffs which compete with similar products of developed countries, but which account for only a relatively small proportion of consumption in the products concerned in developed countries; commodities included in this group are temperate agricultural products like cereals, eggs, and dairy products. Secondly, there are some agricultural products which compete directly with similar products of industrialised countries, but which are of very considerable importance to developing countries as a whole. Commodities which fall into this category are vegetable oils, seeds, sugar and rice. Finally, a number of foodstuffs are produced almost entirely in developing countries; these do not, of course, compete directly with the output of high income industrialised countries. Broadly speaking these are the tropical agricultural products of which coffee, cocoa, bananas are the most important.

As regards the first group (products which compete with those of high income countries) policy measures taken in developed countries are much more restrictive in the case of foodstuffs than for raw materials. This is partly due to the fact that industrial users are interested in obtaining cheap raw materials, and therefore support liberal import policies in regard to basic materials, even when similar products are produced locally.

As regards foodstuffs, however, tariffs, import restrictions, and domestic support policies are much more elastic. This is partly due to the fact that as has already been noted, the income elasticity of demand for farm products is relatively low, and in a free market there would be a tendency for farm incomes to fall well behind those of people in industrial occupations. While this policy of income support is probably the primary justification for domestic agricultural support policies, other motives are also at work. Balance of payments considerations are clearly of importance to many countries, as are social considerations and reasons of nation security. In many quarters (not least among the urban dwellers) it is widely believed agriculture is a "way of life" and that it is "a good thing" that every country has a thriving agriculture, even if this means higher food prices. In a number of countries too, political parties feel (often quite wrongly) that they must woo the farm vote in order to obtain or hold political power.

In almost all industrial developed countries a great deal of agricultural support is devoted to long-term improvement in agricultural productivity. such as grants for rebuilding, electrification, drainage, and road-building; and expenditure on technological education and farm institutes. We are not here concerned with such structural measures which might in the long run have important consequences for altering the pattern of international trade in farm products, but with those policy measures which have an immediate effect on prices or farm incomes.

Although many countries do in fact impose relatively high tariffs on imports of foodstuffs, the tariff is in most cases not the principal method of affording protection to agriculture. Tariffs are, in fact, generally supplemented (or replaced) by a whole battery of income or price support measures, some of which affect the volume and pattern of international trade in food products more than others.

In order to maintain domestic prices at a higher level than would normally prevail in a free market, developed countries use various devices to restrict imports. The most widely used device is that of quantitative import restrictions, whereby a government can fix the level of imports for a specific period, usually dependent upon the season and the size of the home crop.

When in 1961 the G.A.T.T.[9] held an inquiry into agricultural support policies pursued in industrialised countries, it found that of 34 countries examined more than two-thirds applied quantitave restrictions to imports of all or some types of cereals, meat, fish, dairy products, vegetable oils and sugar. Some 87 per cent of wheat produced was protected by quantitative restrictions; over half world sugar production took place in countries imposing import restrictions.

Another protective device in widespread use is the import levy, whereby the importer is required to pay a sum of money, calculated so as to raise the import price to that of the local price. Such a measure is analagous to a tariff, but unlike the tariff an import levy is usually variable, and therefore more effective. A third means of domestic support is provided by the setting up by the state of importing monopolies. Such a monopoly controls tobacco imports into France. A further device is that of the mixing regulation, whereby domestic mills are required to include a given proportion of home-grown wheat in their inputs.

All these devices have the effect of reducing imports and they are often discriminating in their operation, enabling Governments to insulate domestic markets against world price trends.

An alternative set of arrangements provides agricultural support not by directly restricting imports but by the provision of domestic subsidies and deficiency payments. According to the G.A.T.T., more than one quarter of total world imports of wheat are into countries which assist their domestic producers by means of deficiency payments, or allied arrangements.

The provision of deficiency payments and subsidies is, of course, the standard method by which post-war British Governments have protected agriculture. One advantage of the arrangement over a system of tariffs or quantitative restrictions is that prices to consumers are kept down; this is, of course, more likely to encourage consumption than the alternative method of direct import restrictions, which tend to raise domestic prices and to damp down consumption. In the second place, whereas under import restriction arrangements, the consumer pays a high price for his

[9] *Trade in Agricultural Products,* Repo ts of Committee II on Country Consultations, G.A.T.T., Geneva, 1962.

food and the cost of protecting British agriculture is almost impossible to assess, where support is provided by means of subsidies the cost to the taxpayer can readily be measured.

The widespread use of non-tariff measures in agricultural policies tends to nullify the effectiveness of tariff reductions and bindings agreed to in the G.A.T.T. For example, when a year or two ago the G.A.T.T. reviewed the restrictions on world agricultural trade, it was found that most countries had undertaken to bind (not to raise for an agreed period) tariffs on meat, but that almost all of them maintained some non-tariff device which "reduced or even largely nullified the benefit of the binding".[10]

Industrialised countries are particularly successful in supporting domestic agriculture in the cereal sector and, since the war, they have become much more self-sufficient. For example, between 1934/38 and 1954/58, United States production increased by 48 per cent. But United States consumption of wheat actually fell by 12 per cent between these years.[11]

Clearly technological factors have played an important part in bringing about declining dependence upon imports of wheat in so many countries but it is difficult to believe that domestic agricultural support policies have not also played an important part in determining this trend. In the Federal Republic of Germany, for example, where the price of wheat in 1963 was over half as much again as the world price, it cannot be coincidental that the minimum proportion of domestic wheat required to be used in flour mills was as high as 75 per cent.

Countries which support the wheat price generally also support the price of barley and oats. On the other hand only a relatively few importing countries protect maize production. Other temperate zone crops which receive protection in various ways are meat, dairy products and fruits.

In the case of temperate farm products, it would be a mistake to exaggerate the importance of domestic support policies in restricting the trade of developing countries. Exports of dairy produce, eggs, and poultry from developing countries are relatively small, and represent only marginal additions to domestic supplies. Developing countries most affected are the Argentine and Uruguay for cereals and dairy products, the Argentine, Morocco and Israel for eggs. Although imports of cereals and meat from developing countries into the developed world as a whole are relatively small, these imports are nevertheless quite important for certain developing countries, especially in Latin America. Neither can there be any doubt that policies in regard to cereals and meat now being adopted in Western Europe will have the effect of increasing rather than decreasing the problems faced by developing countries which try to expand exports of these products. The effect of the E.E.C. Agricultural Regulations, for example,

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[10] G.A.T.T. Third Report, Committee III, p. 20.

[11] In recent years a large proportion of wheat entering into trade has been shipped under special programmes, especially by the United States. In 1958/9 wheat shipped under special programmes (8.9 million tons) amounted to 28.9 per cent of total exports.

will be to prevent imports of cereals and meat from entering the Community from low-cost outside sources unless supplies being currently produced within the Community (at relatively high Community prices) are insufficient to meet demand. The December 1964 agreement on the common target price for cereals, to become effective for the 1967/68 harvest will almost certainly cause French output (and hence the availability of French wheat for export) to increase; owing to the rate of technical advance it is by no means certain that a lowering of the German price will bring about a corresponding reduction in German output.

Closely Competing Foodstuffs

Since the war the developed countries have become very much more self-sufficient in sugar. This has been especially true of Western Europe, which in 1951/3 produced 64 per cent of its sugar requirements, but which by 1960/1 produced 74 per cent of its requirements. In 1951/53 the E.E.C. was 88 per cent self-sufficient in sugar; by 1960/62 it was over 100 per cent self sufficient.

World trade in sugar is considerably affected by preferential arrangements; it is estimated that less than one half of total sugar output is traded at the world market price. The remainder is bought and sold under special arrangements at prices well above those prevailing in the free market. For example, under the Commonwealth Sugar Agreement, the United Kingdom agrees to purchase a pre-determined tonnage from Commonwealth sources. The U.S. grants quotas to certain foreign suppliers. Producers in countries not covered by these special arrangements are liable to suffer discrimination and are at the mercy of the often violent fluctuations in world prices. The difficulties of non-sheltered producer countries are made much more acute by assistance given to beet sugar production in industrialised countries. Some two-thirds of sugar imports are subject to quantitive restricitons; 32 per cent to deficiency payments, and 26 per cent to import levies. It has been estimated by the G.A.T.T. that only 4 per cent of imports are not subject to non-tariff measures. In many cases the guaranteed minimum price for domestic sugar production in industrialised countries is three or four times as high as the price on the free international market.

In the near future a very real problem is likely to arise for the cane sugar producers. For the world as a whole (excluding mainland China and the U.S.S.R.) there has been a slowing down in the rates of increase of consumption. Between 1952 and 1956 the annual compound rate of increase of sugar consumption was 5.3 per cent; for the period 1957 to 1961 it was estimated at only 3.2 per cent. Indeed in recent years the level of consumption has actually declined in some high income countries, notably Sweden and Denmark. Unless some radical change is made in domestic sugar-beet policies, the outlook for developing countries which depend largely upon cane sugar for their export proceeds is gloomy in the extreme.

A similar problem is likely to arise in regard to oils and oil seeds. Vegetable oils and seeds are produced by developing countries in tropical regions (exports of tropical oils and seeds account for 40 per cent of total

world trade in oil seeds, fats, and oils), but these exports compete directly with other edible oil seeds, notably cotton seed, soya beans and linseed which are produced in temperate industrial countries, especially the U.S.A. In some countries there has been a considerable substitution of soya beans (mainly from the United States) for imports of tropical oil seeds from developing countries. Soya beans have a relatively high protein content and are in great demand for cattle cake. Tropical oils also have to compete against animal fats, which are produced as a by-product of the domestic livestock industry in industrialised countries. The continuation of these trends is almost certain to mean a general stagnation in world demand for tropical oil seeds. But the policies followed in developed countries seem likely to make matters worse rather than better for developing countries. Although the common market external tariff on oil seeds is zero, France and Western Germany continue to restrict imports of these goods by means of quantitive restrictions. Moreover the E.E.C. envisages a system of levies, threshold and intervention prices on oils, designed to protect Italy's oil producers; there will for example, be a tax on imports of vegetable oil and fats to finance the price support of Italian rape seed, and of olive oil.

Non-competing Foodstuffs

Coffee, cocoa, tea and bananas are the most important non-competing foodstuff exports of developing countries. In the case of these products there is no question of domestic support policies in developed countries, and in general actual tariff barriers are low, with perhaps the exception of the new E.E.C. 20 per cent tariff on banana imports. The U.S. import duties on coffee, cocoa beans, and tea, are zero. But one of the most serious barriers limiting entry of tropical beverages into developed countries is the existence of quite high fiscal charges, which have the effect of damping down internal demand. In some cases these internal revenue charges result in very substantial price increases to the consumer. The internal duty on coffee consumed in Western Germany is equivalent to 98 per cent of the import price; for Italy the percentage is 128 per cent, and for Sweden 80 per cent (excluding general turnover taxes).

Estimates of the effects of abolishing or reducing these internal duties on tropical beverages vary. It has been suggested by the F.A.O. that for coffee, removal of all taxes and duties in industrialised countries could stimulate an increase in consumption of some 70 to 80 thousand tons a year—equivalent to some 4 per cent of the quantity moving in international trade. Other estimates put the figures higher. For cocoa the F.A.O. suggest that a removal of taxes in industrial countries would result in an increase in consumption equivalent to perhaps 4 to 6 per cent of total world trade. At 1961 export prices, this would mean an increase in the export earnings of producer countries of some $18.2 millions.

Now even where duties on raw coffee, cocoa and other tropical products are low when such goods are imported in processed form the duties become very much higher. For example the E.E.C. common external on cocoa paste is as high as 27 per cent.

The developing countries have urged the abolition of both internal

consumption duties and of differential import duties. Indeed the elimination of differentials by 1965 was an essential part of the Action Programme urged by Nigeria and other developing countries in the G.A.T.T.[12]

Developed countries have, of course, argued that internal duties are imposed for revenue purposes and that their budgets could not be balanced without them.

Basic Materials

Many developing countries depend heavily on exports of raw materials. The problem here is not so much one of overcoming import restrictions and domestic support policies in industrialised countries as of eliminating price fluctuations[13] and of maintaining a steady flow of imports into the major industrial countries.

As has been previously noted, the slow growth of world trade in raw materials has been caused in part by the progressive substitution of synthetic materials for natural products. Another factor has been the slow growth in consumption of natural and synthetic fibres, in some industrialised countries, especially in North America.

Almost all apparel fibres enter industrial countries free of import restrictions, but in the case of the U.S., imports of cotton are limited by quota—in recent years equivalent to about only 2 per cent of domestic consumption. Since domestic prices are well above world market prices, the U.S. provides export subsidies for raw cotton.

Generally trade in raw wool is free of import restrictions, but both in the U.S. and the United Kingdom domestic wool producers are supported. Few countries impose restrictions on imports of natural rubber or hides and skins but domestic livestock support policies undertaken in almost all major industrial countries, reduce the scope for the import of these products. As for timber, the United Kingdom and the E.E.C. have suspended duties on tropical hardwoods for two years from the 1st January, 1964. Metal ores and metals are, in general, free, but some import restrictions on copper, lead and zinc have adverse effects upon the trade of developing countries. The U.S. imposes an import quota on lead and zinc and their ores. Some countries impose duties on aluminium, lead and zinc, e.g. the Common Market external tariff for aluminium is 9 per cent, and for lead and zinc 5 per cent.

As for petroleum, tariff barriers on crude oils are few and easy to scale. There are, however, some import restrictions, which discriminate in favour of particular supplying areas, e.g. France severely limits imports from non-associated countries. Other countries which have a substantial domestic output, relate the level of permitted imports to production, thus petroleum imports into the United States of America east of the Rockies for each half year are limited to 12 per cent of the estimated consumption of crude petroleum and gas products in the area for the following six-month period. Most industrialised countries impose substantial duties on

[12] See page 23.
[13] See page 6.

petroleum products, either in the form of import duties or domestic excise taxes of various kinds.

Processed Materials

Although import restrictions on raw materials are relatively moderate, this is by no means true of barriers to trade in processed and semi-processed materials. In the case of almost all metals exported in a processed state, developed countries impose higher tariffs or more stringent restrictions than on the original basic metals. The United States, for example, imposes a duty equivalent to 7 per cent to 8 per cent on unwrought copper; but on copper alloys the duty ranges as high as 22 per cent. The United States duty on iron ore is zero; on pig-iron it is 9 per cent. On wood the United States duty is again zero, but on boards and veneers is 11 per cent. Similar differentials apply in the case of the E.E.C. and the United Kingdom. In a recent examination of the restrictions on basic materials and allied products the G.A.T.T. concluded that while most restrictions on raw material imports had been liberalised, tariffs on similar materials which had undergone simple processing were still relatively severe.

What is more, the impact of these tariff differentials is greater than a crude expression of the differentials suggests. The real impact of the discrimination should be measured by expressing it as a percentage of the cost of conversion. The higher the domestic cost of conversion in relation to the import price of the raw material, the less effective will be a given differential in affording protection to the processing industry. Thus it has been estimated that in 1955 the United Kingdom duty on processed copper amounted to some 80 per cent of the cost of conversion.

In general quantitive restrictions imposed by industrialised countries for non balance of payments reasons on imports of semi-processed goods are moderate. But a very large number of countries, both developed and under-developed, invoke balance of payments reasons for imposing restrictions. Insofar as the provision of additional international liquidity would diminish the justification for imposing such restrictions, the implementation of measures outlined earlier would clearly be of help to the countries which are trying to develop processing industries. But apart altogether from this a good case can be made out for the elimination by industrialised countries of tariff differentials as between raw materials and processed products. Up to the present, however, the industrialised countries have shown little evidence of willingness to go very far in this direction.

The effect of differential duties can be seen in the fact that for aluminium, lead, refined petroleum, tin metals, and zinc metals the growth of exports (by volume) by developing countries between 1950 and 1960 was less than in the raw materials from which these products were derived.

Many, though not all, processing operations could well be carried out in countries where the raw materials originate. The development of oil refining and food processing for example would ease the employment problems of many poorer countries; it would also assist their people to acquire certain industrial skills and work habits which are essential if they are later to develop other more sophisticated manufacturing industries. This, however, brings us to a discussion of the prospects of developing countries in the wider field of manufactures.

4. Exports of Manufactures

WHILE increased openings for exports of traditional primary products and simple processed products are clearly desirable, in the longer run, the growth and export prospects of many developing countries must surely lie in an expansion of the industries making fully manufactured products. At the present time, developing countries' exports of these products account for both a very small share of their total exports (14.1 per cent) and for a small share of world trade in manufactures (5.6 per cent).[14]

Base metals still account for 47 per cent of developing countries exports to North America and Western Europe: textiles for 17.6 per cent; clothing and footwear 9 per cent. Since 1955, however, exports of machinery have expanded much faster than other groups of manufactures. They have, in fact, doubled in value; textiles and other manufactures have increased by just under 50 per cent; exports of base metals, although still by far the largest group, have increased very slowly indeed by little over 10 per cent. Imports into North America accounted for 32.4 per cent of the exports of developing countries to North America and Western Europe; imports into the United Kingdom accounted for just under 30 per cent; imports into the Federal Republic of Germany and France accounted for 13.3 per cent and 7.3 per cent respectively.

Textiles

Many developing countries start industrialisation by establishing their own textile manufacting industry. In many cases these textile industries are primarily set up to save imports; later they serve as a base for a wider export sector. In spite of recent developments in other fields of manufacture, textiles do in fact still provide the staple export manufacturing industry of a large number of developing countries.

Direct comparison of labour costs are difficult to come by, but it is almost certain that developing countries as a group have some comparative cost advantage in producing textiles. Unfortunately, however, almost all developed countries have been at considerable pains to restrict the import of textiles from developing countries; this has been particularly true of cotton goods.

Since the war the countries of Western Europe have imposed very stringent restrictions on imports of all kinds of cotton goods: imports of textiles into the E.E.C. between 1958 and 1962 were very low indeed, about 4 per cent of total imports. Community duties on cotton and other

[14] Manufactures are defined here as Sections 5-8 of the Standard International Trade Classification. They comprise chemicals (Section 5), manufactured goods classified by material, e.g. leather, rubber, wool, textiles, base metals, and metallic manufactures (Section 6); machinery and transport (Section 7) and miscellaneous articles such as furniture and fittings, travel goods, clothing, scientific instruments, and photographic equipment (Section 8).

textile goods are also relatively high. The common external tariff on silk fabrics, is 16-17 per cent, on rayon fabrics it is 20 per cent, on hemp and sisal fabrics it is also 20 per cent. But of greater importance than these tariff barriers are the very stringent import restrictions imposed by European and other high income industrialised countries.

In the early nineteen-fifties, United States restrictions on textile imports were rather less stringent than those imposed in Continental Europe, and certain other high income countries, e.g., New Zealand. In the case of the United Kingdom, the Commonwealth "open door" policy in trade meant that there were no restrictions on Commonwealth trade at that time. Accordingly there was a tendency for textile imports to be concentrated on the markets of the United Kingdom and the United States with a consequent raising of the ratio of imports to domestic consumption in those countries.

The bulk of low cost textile imports into the United States came from Japan; in the case of the United Kingdom they came, and continue to come from Hong Kong, Pakistan and India.

The Ottawa Agreement of 1932 prohibited the imposition of quota restrictions on imports from Commonwealth countries into the United Kingdom. Accordingly, the only way of restricting imports of low cost Commonwealth textiles was by the negotiation of "voluntary" agreements. As early as 1956, Japan had agreed to limit exports of cotton goods to the United Kingdom, the United States, and Canada. In 1958 Japan concluded a further agreement with the United Kingdom; shortly after this the limitation was extended to the Commonwealth supplying countries, and by the beginning of 1960 imports of cotton goods from India, Pakistan and Hong Kong were limited in this way.

In fact, in 1959 and 1960 Hong Kong and Indian exporters exceeded their limits, but it is worth noting that in both years British imports of cotton piece goods from Europe and North America increased faster than from the low cost Asiatic countries with which Britain had export limitation agreements.

Cotton Textiles Agreement

These voluntary agreements in respect of cotton goods operated with a great deal of friction and uncertainty and, what was more, exports from developing countries still tended to be concentrated on a limited number of comparatively open markets. Partly for this reason and, perhaps partly to shame other countries into a more liberal import policy, the United States, in 1961, proposed the negotiation of a general Cotton Textiles Agreement, to regulate trade between the major low cost exporting countries on the one hand, and high cost developed importing countries on the other. That year discussions took place under the auspices of the G.A.T.T. and an interim Agreement was signed, to operate for twelve months from the 1st October, 1961. Nineteen countries accepted these interim arrangements, which provided for "a significant increase" in access to markets for textiles, but at the same time, laid down that exporting countries should undertake to exer-

cise restraint in their export policy "so as to avoid disruptive effects in import markets".

In October, 1962, this provisional arrangement was replaced by the long term Agreement regarding trade in cotton textiles,[15] which came into force on 9th February, 1962. The Agreement was to last for five years. It provided that participating centres which maintained restrictions on imports of cotton, should undertake progressively to relax the restrictions. It was envisaged that by the end of 1967 quotas would be increased quite substantially. Norway and Sweden undertook to increase their import quotas by 15 per cent; Australia and Denmark by 19 per cent and 15 per cent respectively; the E.E.C. by 88 per cent.

Participating countries also agreed to administer the remaining import restriction on cotton textiles with due regard to the special needs of the developing countries.

As in the interim Agreement, importing countries may, in the case of threatened market disruption, request an exporting country to limit exports or to discuss some alternative shock absorber. If within 60 days of an importing country's request for restriction or consultations, no agreement has proved possible, an importing country may unilaterally impose quantitive restrictions. Such a country must, however, notify the Cotton Textiles Committee of its action.

The United Kingdom signed the Agreement, but in view of the already relatively large share of the developing countries in the United Kingdom imports of cotton textiles, the United Kingdom Government stated that she could not undertake to increase import quotas. This reservation was accepted by all exporting countries except Pakistan.

The Agreement was clearly a step forward in that it was an attempt to find a solution on a multilateral basis, i.e. all participating developed importing countries accepted the undertaking to take some share of the expanding exports of developing countries. For their part, exporting countries accepted the need for restraint from time to time.

The Agreement can, however, hardly be described as having operated successfully. The major exporting countries complain that in many markets access is still very difficult indeed and that some importing countries are "invoking market disruption formulae much too readily". They complain that although it was envisaged that under the long-term agreement, requests for restraint would be made only in exceptional circumstances, many importing countries are regarding requests for restraint as the rule rather than the exception. India is clearly disappointed with the results of the arrangements, so is Pakistan, which complains that as the result of the agreement about half of her exports of textiles to the United Kingdom and the United States, hitherto free, have been restricted.

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[15] Cotton textiles include yarns, piece goods, made-up articles, and garments and other textiles manufactured products in which cotton accounts for more than 50 per cent by weight of fibre content, with the exception of handloom fabrics of the cottage industry.

Jamaica found that during 1962, just as its textile industry was reaching an economic level of output, the United States "requested restraint"; under the Agreement.

Moreover, importing countries whose policies are relatively liberal are still unhappy about the possible diversionary effects of restraints operated by more restrictive-minded importing countries. The United Kingdom itself could well argue that many developed countries are still not pulling their weight; in fact the ratio of imports of textiles to domestic consumption in the United Kingdom has increased from 36 per cent in 1959 to 42.6 per cent in the first half of 1963—the greater part of increased imports coming from developing countries. Even if the United Kingdom had wished to allow further liberalisation, it would have been difficult for her to have done so in face of the restrictive policies in operation in other high income developed countries. Countries which were, and are, particularly restrictive in their attitudes to imports of textiles are, of course, those which make up the European Economic Community. As part of the 1962 Agreement the E.E.C. undertook to raise its quota of textiles from less developed countries but, in fact, the initial quotas were extremely modest. For the whole Community import quotas amounted to only 6.5 thousaid tons in 1962.

In textiles, including clothing, the share in world trade of developing countries (excluding Japan) actually fell from 17 per cent in 1959 to 15 per cent in 1962. This can hardly be regarded as a very satisfactory augury for the Development Decade.

Other Manufactured Goods

In the past it has been customary to associate exports of manufactures from developing countries with textiles and the clothing industry, little attention being paid to the large range of manufactured goods which developing countries are often well endowed to produce and export. In recent years, however, particularly in the G.A.T.T., considerable attention has been paid to these products. Among them, the G.A.T.T. has identified aluminium, leather goods, ferro-chrome, manganese, diesel engines of up to 50 horse power, sewing machines, electric motors of up to 50 horse power, electric fans, bicycles and steel furniture. The list, of course, is by no means exhaustive, and each year it is being added to.

In many cases tariffs imposed on these goods by developing countries are relatively high. Indeed for some countries, notably the E.E.C., the average level of tariffs imposed on goods which are of interest to exporters in developing countries is higher than the average level of the tariffs of the countries concerned.

When the G.A.T.T. examined obstacles to trade in these manufactured goods, it is found that in a disturbingly large number of cases tariffs were exceptionally high. This was especially true of tariffs on light sewing machines, and light machinery, where in some cases over half the contracting parties imposed duties of 20 per cent or more. At present the general level of duties on export of goods of interest to developing countries, is still relatively high. In the case of bicycles, for example, the E.E.C. com-

mon external tariff will be 17 per cent; Australia imposes a duty of 45 per cent; Canada 25 per cent; South Africa 15 per cent; New Zealand 20 per cent; United Kingdom 20 per cent; and the United States 15-30 per cent.

In many cases these manufactures are also subject to quota in the importing countries. As late as the end of 1963 the Federal Republic applied quota restriction on imports of leather and sewing machines. France subjected imports of ferro-chrome, ferro-manganese, leather goods and sports goods to quota; restrictions were also imposed on imports of leather footwear, electric motors, and bicycles. Japan limited imports of some types of leather, internal combustion engines and leather footwear. None of these countries could invoke balance of payments difficulties as justification for imposing these particular restrictions.

Of course if we look at restrictions imposed for balance of payments reasons, the list becomes much longer. Brazil, Ceylon, Burma, Ghana, India, Turkey, the United Arab Republic applied restriction to almost all manufactures of interest to developing countries. In the case of New Zealand, Pakistan, and South Africa balance of payments reasons were invoked as justification for subjecting a large number of such goods to licensing.

5. G.A.T.T. and the U.N.

THE G.A.T.T. has come in for a great deal of criticism for its inability to solve many of the trade problems of the developing countries.

At its inception in 1947, the G.A.T.T. was not regarded as being in any way an executive body with pre-determined functions. What the contracting parties had sought to provide, to quote the 1947 Agreement, was "not an institution at all, but simply the contractual framework in which to incorporate the extensive tariff reductions and bindings negotiated at Geneva in 1947".[16]

Basically the G.A.T.T. was a stop-gap measure to secure some of the liberal trading provisions of the Havana Charter while the Charter was awaiting ratification. In 1947 the Contracting Parties consisted of 23 countries (today they number 61). Among the less-developed countries, Burma, Ceylon, China, India and Pakistan were original Contracting Parties. Only three Latin American countries signed the Agreement as against the seventeen which signed the Havana Charter. In Latin America—and elsewhere—there was dissatisfaction when in 1950 the United States Government failed to ratify the Havana Charter, especially as the G.A.T.T. excluded the proposals of the Charter regarding economic development and the regulation of trade in basic materials and foodstuffs. The developing countries regarded the G.A.T.T. as very much a "second best". However, it was within

[16] G.A.T.T. *International Trade,* 1954, p. 178.

the G.A.T.T. that sympathetic attention was first paid to the widening of the gap between high-income developed countries and low income less-developed ones.

By 1957 it was clear that the share of developing countries in world trade was decreasing—indeed G.A.T.T. Annual Reports had repeatedly drawn attention to this fact and it was becoming widely accepted that something had to be done to reverse the trend. Accordingly in the summer of 1958 the Contracting Parties set up a panel of experts to examine the whole problem of the growing imbalance in world trade.[17]

On the basis of the Report of the experts, the Contracting Parties set up three committees to assist in their future thinking and action on trade matters.

Committee I was given the task of preparing the ground for future tariff and trade negotiations; Committee II was entrusted with the work of examining problems in regard to agricultural trade and domestic support policies. The third committee was established to investigate problems relating to trade in products of particular interest to less-developed countries. Committee III has carried out detailed studies of factors affecting trade in a very large number of products (agricultural and industrial), and has acted as a kind of watchdog for the developing countries, regularly drawing attention to progress (or lack of progress) made in reducing barriers to trade in these goods. In a number of cases the Committee has been able to report substantial progress in liberalisation of trade in goods into which it has enquired.

At the G.A.T.T. Ministerial meeting of November, 1961, successive Reports of Committee III led Ministers to the conclusion that the situation facing developing countries was serious, and they issued a Declaration on the Promotion of Trade of less-developed countries. This urged that immediate steps should be taken to establish specific programmes for action to ease the trade problems of developing countries and where feasible to fix target terminal dates for the progressive reduction and elimination of barriers to their exports. In spite of the high resolve expressed in the 1961 Declaration, to the developing countries progress appeared slow. In particular they deplored the lack of progress in removing many internal barriers to trade, e.g. high revenue duties, and differential tariff rates as between raw materials and semi-processed products. Accordingly, in the autumn of 1962, eighteen less-developed countries, all of whom were G.A.T.T. Contracting Parties, started a vigorous campaign to draw the attention of other Parties to their discontents. They demanded:

1. An immediate standstill on new tariff and non-tariff barriers.
2. Elimination of quantitative restrictions within one year (or in the case of difficulties, by 31st December, 1965).
3. Duty-free entry for tropical products by 31st December, 1963.
4. Elimination of tariffs on primary products.

[17] The Report of these experts was published as *Trends in International Trade*, Report of a Panel of Experts. G.A.T.T., 1958.

5. Reduction and elimination of tariff barriers on processed and semi-processed products of the less-developed countries, on a scheduled basis, providing for a reduction of at least 50 per cent of present (1962) duties over the following three years.
6. Reduction of internal fiscal charges on products wholly or mainly produced in developing countries, with a view to their elimination by 31st December, 1965.
7. Oversight of this Action Programme by regular reporting.

In 1963 a further point was added—the exploration of other measures for facilitating diversification and expansion of the export capacity and foreign exchange earnings of the less-developed countries.

This programme of action was considered in detail by Committee III in November, 1962, and again in the Spring of 1963. It was submitted to the Ministerial meeting held in May, 1963, when the representatives of most developed countries expressed a general approval of the objective of the programme; but in a number of cases they stated that all could not give up reservations concerning its implementation in regard to particular commodities, and to particular terminal dates. The Ministers of the E.E.C. and associated states felt that it was not enough to consider elimination of barriers to trade. They felt that more attention should be paid to what they described as "more positive measures to achieve a marked and rapid increase in the export earnings of developing countries". By this they meant commodity stabilisation and price support schemes.

As a result of the 1963 Ministerial discussions, however, it was decided to set up an Action Committee, within the G.A.T.T., to assist Contracting Parties in the implementation of the Action Programme and to draw up "Other positive measures of assistance to developing countries in strengthening their production potential and export capacity".

By the end of 1963 some progress had been made in removng quantitative restrictions and tariffs on tropical products; but duty-free entry had not been secured. Neither had any of the Contracting Parties reduced internal charges on tropical beverages—or even announced any intention of doing so by the target date of 31st December, 1965.

On the other hand, during 1963 a whole range of new ways of easing the trade problems of developing countries was opening up and being examined in the G.A.T.T. Committee III undertook studies of development plans in relation to trade of developing countries (pioneer studies for India and Pakistan have already been completed). The Committee also discussed the possibility of extending the activities of the G.A.T.T. to embrace financial aspects of bridging the gap between export proceeds and import requisites of developing countries. They examined export promotion schemes as a means of assisting export trades of these countries; the use of export subsidies by developing countries within the rules of G.A.T.T. and the setting up of a G.A.T.T. Trade Information Centre. A Working Party was set up to examine the possible granting of preferences on selected products by industrialised countries to the developing countries. Such pre-

ferences, of course, would be "new preferences" and therefore contrary to the original concept of the General Agreement.

Finally, in June, 1963, the Contracting Parties appointed a Committee charged with the duty of considering desirable changes in the legal and institutional framework of the G.A.T.T. to enable contracting parties more adequately to discharge their responsibilities in relation to the developing world. Accordingly the secretariat was asked to prepare a draft Model Chapter on Trade and Development to serve as a basis for discussion and study.

The United Nations Conference on Trade and Development.

In 1964, many of these promising developments within the G.A.T.T. were overshadowed by the United Nations Conference on Trade and Development.

On 23rd March, 1964, 2,000 delegates representing 120 nations assembled at Geneva. They represented developed capitalist economies, centrally planned economies, and developing countries. Their task was to examine the whole problem of economic relations between the developed and the developing world.

When the Conference first assembled there were some misgivings among industrialised Western countries as to its political implications. Many feared that it would lead to a "ganging-up" of the Eastern block with the developing countries to the embarrassment of the developed nations of the West. Others feared that the Conference would be merely a talking shop and that little beyond high sounding platitudes could emerge from the three-month jamboree of politicians and economists representing nations with such diverse interests.

In fact none of these fears proved to be justified. After the inevitable preliminary opening speeches the Conference got down to its talks fairly quickly and efficiently. It split up into several working Committees, one on primary products, another on manufactures and semi-manufactures; there was one on financial aspects of trade and development, another on the institutional framework in which decisions reached at the Conference were to be carried out, and there was a Committee on the implications of regional groupings for the expansion of trade.

The Conference was fortunate in having a very full documentation provided for it by the U.N. secretariat, the G.A.T.T. and the F.A.O. Perhaps there has never before taken place a world trading conference at which the participants were so well provided with documents. This was partly due to the vigour with which the Secretary-General of the Conference, Raul Prebisch, set out to organise the masses of material and arguments, statistical and otherwise, which provided the raw material of the Conference.

There proved to be relatively little affinity of interest between the U.S.S.R. and developing countries; many observers believed that, except perhaps at the beginning of the Conference and again in the last few days, the developing countries showed considerable moderation in the way in which they expressed their aspirations. One of the most remarkable feats

of the developing countries at the Conference was the way in which, despite their varied interests, they so often acted unitedly in order to achieve what they conceived to be the broad objectives of the United Nations Development Decade. This was especially true at the end of the Conference, when they successfully persuaded the delegates to accept the setting up of a 55 nation Trade and Development Board, to prepare for the next U.N. Trade Conference in 1966.

In their unity, the developing countries contrasted strongly with the developed nations, whose attitudes were by no means unanimous. On the whole the United States delegation appeared to be on the defensive throughout much of the Conference, the United Kingdom, to its credit, urged freer access of exports of developing countries on the lines of the G.A.T.T. Action Programme referred to above; the United Kingdom delegation also worked out and sponsored the Compensatory Finance Proposal, in the face of often considerable opposition from other developed countries. The United Kingdom undertook to consider the extension of preferences at present granted to Comonwealth countries to all developing countries, provided that Commonwealth countries agreed. Although the United Kingdom was lukewarm about the setting up of a permanent United Nations body to watch over the trade and development interests of the poorer nations, the general attitude of Mr. Heath and the British delegates at the Conference was widely acclaimed as constructive.

The E.E.C. was reluctant to discuss freer access of exports of manufactures into industrialised countries, but stressed the importance of commodity agreements and the setting up of a relatively high world price for foodstuffs and raw materials. The Community also advocated the granting by developed countries of preferences to selected developing countries and on selected commodities. This approach, of course, fell short of the multilateral proposals of the United Kingdom. It seems certain that, in fact, the E.E.C. delegation was divided on this issue. The Germans and the Dutch, if left to themselves would probably have advocated general rather than selected preferences to developing countries; neither were they as enthusiastic as the French about the jacking-up of world commodity prices.[18]

Before the Conference it was thought that the developing countries, possibly urged on by Soviet and other Communist interests, might attempt to destroy the G.A.T.T. and the work which it has done. In the event, however, it became clear that the new institution to be set up would be supplementary to rather than in place of the G.A.T.T. At present it looks as if the G.A.T.T., more or less in its present form, but with additional powers and responsibilities in regard to developing countries, will continue.

[18] For the official U.K. account of the proceedings of the Conference see *UNCTAD—Final Act with Related Documents*, Cmd.2427, H.M.S.O.

6. Policy for Labour

THE solution to many of these problems can be reached only in a world setting. In re-organising the International Monetary System, for example, the room for manoeuvre of a British Government is severely limited. There is no reason to believe that a future Callaghan or Wilson Plan is likely to fare any better than the now little discussed Maudling plan. Nevertheless in the field of world trading relations, the Labour Government should be prepared to take whatever positive initiative it can, not only to carry out those policies which are within its immediate power to implement, but also to take the initiative in prodding other nations to follow liberal trade and development policies vis-a-vis the developing world.

Aid

In the first place, aid itself should be increased. It is unthinkable that socialists should be prepared to acquiesce in a situation in which the proportion of national income devoted to overseas development by Britain is less than 1 per cent. A very substantial increase in this percentage is called for, if only to offset the repayment and servicing of loans already made. Here perhaps is a field in which Labour can capture some of the early enthusiasm of socialist pioneers—the enthusiasm of men and women who were socialists because they desired passionately that the good things of the world should be shared more fairly and with less regard for the accident of birth. Labour accordingly should state clearly and unequivocally, that it proposes to increase the level of aid to developing countries, with, of course, adequate safeguards to ensure that the best possible use is made of the aid, to a pre-determined percentage of the national income. It should also be made clear that unless provided for out of domestic growth, fulfilment of this obligation will entail a lower level of personal consumption by the people of Britain.

In fact, the need for a substantial increase in the absolute volume of overseas investment is one of the most important reasons why Britain should follow a policy of rapid economic growth.

Low Cost Imports and Economic Development

In the second place, the British Government in its own domestic growth policies should take account of the trade requirements of the developing world. In planning the output for various industries, whether through N.E.D.C. or through some central planning authority, full account should be taken of the fact that imports of textile and manufactures from developing countries must increase. Such an increase in low-cost imports will, of course, help British consumers irrespective of its effect upon developing countries. Accordingly the future output of such industries should be planned in such a way as to leave room for increased quantities of low

cost imports, e.g. cotton textiles, clothing, jute goods, and bicycles. In the case of some products, notably jute, this policy taken in isolation might create serious local difficulties. Its implementation should therefore be accompanied by well thought-out schemes for re-conversion of industry and the re-training of labour. In the coming age of automation, Labour will in any case have to pay much more attention to the whole problem of re-conversion and re-training.

Up to the present, proposals made by British Governments for the re-training of workers displaced by normal structural changes in the economy have been almost derisory. The U.K. Cotton Industry Reorganisation Scheme made no provision for re-training or re-settlement, and neither was any attempt made to promote the diversification of an area's economy through the establishment of new industries. There were no provisions for displaced workers, apart from a condition that grants would only be given to firms which had worked out satisfactory redundancy schemes.

The effect of increased low-cost imports upon regional development is clearly of first-rate importance for economic planning. In encouraging the establishment of new industries in U.K. Development Regions care should be taken to avoid the setting up or expansion of those industries which are likely to be adversely affected by future increases in imports from developing countries.

It might be argued that freer importation of low cost imports from developing countries will impose an added burden upon the United Kingdom balance of payments. This danger can well be exaggerated. It has been suggested that if in 1961 U.K. imports of manufactures (excluding base metals) from developing countries had risen by ten per cent, and if imports from other sources had continued without reduction, then the average annual payments deficit for 1960-62 would have deteriorated by £12 million a year.[19]

Tariff Reductions

Such calculations take no account of the fact that higher export earnings by the developing countries will enable them to buy more from the developed nations. For some years past, India's imports have been limited solely by foreign exchange considerations. India and many other developing countries would buy very much more from the United Kingdom if they had wider export opportunities in industrialised nations.

Over a wide field, British policy with regard to imports of manufactures from developing countries is relatively liberal. In fact 70 per cent of such imports from developing countries originate from commonwealth preferential sources of supply; the generalisation of commonwealth preference to all developing countries would eliminate many of the remaining

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[19] Ezra Bennathan, *Manufactures from Developing Countries and the Growth of the British Economy. Venture,* November/December, 1964.

obstacles which Britain now places on imports of goods from non-commonwealth developing lands.

The British tariff still provides for considerable discrimination between processed goods and raw materials. The unilateral abolition of these differentials by Britain would clearly be an advantage to the developing world; incidentally it would also be of considerable benefit to the British consumer. The ironing out of such differentials might also have a salutary effect upon the efficiency of British industry generally.

In the general field of tariffs, it is to be hoped that British Labour Governments will participate fully in the tariff reducing activities of the G.A.T.T. There is no reason why socialists should be protectionists. There is everything to be said for their being expansionist and internationalist in all their trade policies, especially in those policies which affect the welfare of those human beings who are still the submerged two-thirds of the world's population.

In particular it is to be hoped that the British government will throw its full weight behind the present "Kennedy Round" negotiations. Tariff concessions made in the G.A.T.T. are extended to all Contracting Parties on the most favoured nation basis. Thus any tariff reductions agreed to among developed countries will automatically be extended to less developed countries which are contracting parties to the G.A.T.T. Developing countries themselves, on the other hand, will not be required to reciprocate by offering tariff concessions. The wider the area of tariff cuts between developed countries, therefore, the greater will be the potential gains of the developing nations. Accordingly, the successful conclusion of the present round of tariff negotiations might well prove to be one of the most effective ways of securing a widening of the export opportunities of developing countries.

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