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on
TRADE AND DEVELOPMENT
Geneva, 23 March—16 June 1964

Volume VII
TRADE EXPANSION
and
REGIONAL GROUPINGS
Part 2

UNITED NATIONS
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NOTE

The designations employed and the presentation of the material in this publication do not imply the expression of any opinion whatsoever on the part of the Secretariat of the United Nations concerning the legal status of any country or territory or of its authorities, or concerning the delimitation of its frontiers.

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Symbols of United Nations documents are composed of capital letters combined with figures. Mention of such a symbol indicates a reference to a United Nations document.
FOREWORD

The United Nations Conference on Trade and Development held in Geneva in the spring of 1964 ushered in a new chapter in the history of United Nations endeavours to accelerate the economic development of developing countries. The Conference has shown the way towards a more just and rational international economic order in which the poor nations, which make up the great majority of mankind, will at long last be able to have an adequate share in the fruits of economic and technological progress.

The Conference has taken the first steps towards the establishment of a new trade policy for development. It has, moreover, recognized that if the acceptance of broad principles and policies for the conduct of international trade is to have real meaning, those principles and policies must be translated into practical action through effective international machinery.

The results of the Conference are an eloquent tribute to the wisdom of its participants. Despite differences of opinion on many problems, they laboured unremittingly to achieve the greatest possible degree of agreement on a number of urgent measures which should be taken by both developed and developing countries. They also decided to study further a number of other measures on which agreement had not yet been reached.

Publication of the Conference proceedings is intended in the first instance to furnish Governments and the General Assembly with a full account of what has been accomplished and what remains to be done. It should also help to meet the wider public interest in questions of development and trade which the Conference has stimulated.

It is my hope that the work begun in Geneva will move forward with vigour and imagination.

U Thant
Secretary-General of the United Nations
PREFATORY NOTE

This eight-volume series attempts to provide a self-contained reference to the Proceedings of the United Nations Conference on Trade and Development. Apart from the actual Proceedings of the Conference and the reports of the five Main Committees, it contains most of the background material prepared for the Conference and other documents referred to in the Proceedings. Only papers of a more limited character, such as country studies or special commodity studies have, for technical reasons, been excluded.

The Final Act adopted by the Conference (including the thirty-five Principles and fifty-seven Recommendations) together with the Report of the Conference are published in Volume I. This volume also contains a complete check list of all documents used during the Conference.

The report “Towards a New Trade Policy” submitted by the Secretary-General of the Conference prior to the opening of the Conference is published in Volume II. This volume also contains the opening addresses delivered by the President of the Swiss Confederation, the Secretary-General of the United Nations and the President and Secretary-General of the Conference, together with the opening and closing policy statements of the heads of delegations, and representatives of specialized agencies and GATT, regional economic groupings, non-governmental organizations, etc.

The pre-Conference documents are published in Volumes III to VII inclusive. For the sake of convenience the material has been divided into five parts according to the agenda items for the five Main Committees:

First Committee: International commodity problems
Second Committee: Trade in manufactures and semi-manufactures
Third Committee: Improvement of the invisible trade of developing countries and financing for expansion of international trade
Fourth Committee: Institutional arrangements
Fifth Committee: Expansion of international trade and its significance for economic development and implications of regional economic groupings

The allocation of the papers is of necessity somewhat arbitrary since some of these apply to more than one Committee. The texts of the pre-Conference documents are here presented in the form in which they were originally submitted to the Conference, with no editorial changes as regards references. However, where references have been made to documents bearing E/CONF.46... symbols and which have been reprinted in this series, the number of the volume in which they appear has been inserted.

Volume VIII contains those documents of the Conference on Trade and Development which, it was felt, should be published for reference purposes, but which did not fall obviously into any of the categories covered by the other volumes of the series. These documents consist of the reports of the three sessions of the Preparatory Committee, followed by a letter from the Secretary-General of the Conference containing a list of the questions that were brought up in preliminary discussions on the various topics of the agenda, as had been promised at the third session of the Preparatory Committee; a number of letters and memoranda concerning some of the other issues raised during the meetings, five draft recommendations which could not be discussed for lack of time, but which the Conference felt were of sufficient interest to warrant their transmission to the “continuing machinery”, the relevant extract from a booklet published by the FAO which is now difficult to obtain but which was frequently referred to during the Conference, memoranda from two of the non-governmental organizations and finally the list of members of delegations attending the Conference, of observers sent by various organizations, and also of the secretariat of the Conference.

The titles of the eight volumes of the series are as follows:

I. Final Act and Report
II. Policy statements
III. Commodity trade
IV. Trade in manufactures
V. Financing and invisibles
   Institutional arrangements

VI. Trade expansion and Regional groupings.
   Part 1
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VIII. Miscellaneous documents and List of participants

V
EXPLANATORY NOTE

The following symbols have been used in the tables throughout the series:

Three dots (…) in some studies or two dots in others indicate that data are not available or are not separately reported.

A dash (—) indicates that the amount is nil or negligible.

A blank in a table indicates that the item is not applicable.

A minus sign (−) indicates a deficit or decrease, except as indicated.

A full stop (.) is used to indicate decimals.

A stroke (/) indicates a crop year or financial year, e.g., 1960/61.

Spaces are used in the tables to distinguish thousands and millions.

Use of a hyphen (-) between dates representing years, e.g., 1961-1963, signifies the full period involved, including the beginning and end years.

Reference to “tons” indicates metric tons, and to “dollars” United States dollars, unless otherwise stated.

The term “billion” signifies a thousand million.

Annual rates of growth or change, unless otherwise stated, refer to annual compound rates.

Details and percentages in tables do not necessarily add to totals, because of rounding.

Certain abbreviations have been used:

AID Agency for International Development [United States];

CICT Commission on International Commodity Trade;

CMEA Council of Mutual Economic Assistance;

DAC Development Assistance Committee [of the Organisation for Economic Co-operation and Development];

EDF European Development Fund [of the European Economic Community];

EEC European Economic Community;

EFTA European Free Trade Association;

EPTA Expanded Programme of Technical Assistance [of the United Nations];

FAO Food and Agriculture Organization of the United Nations;

GATT General Agreement on Tariffs and Trade;

IBRD International Bank for Reconstruction and Development;

ICICA Interim Co-ordinating Committee for International Commodity Arrangements;

ICICI Industrial Credit and Investment Corporation of India;

IDA International Development Association;

IDB Inter-American Development Bank;

IFC International Finance Corporation;

OAS Organization of American States;

OECD Organisation for Economic Co-operation and Development;

OECD Organisation for European Economic Co-operation;

OPEC Organization of Petroleum Exporting Countries;

SITC Standard International Trade Classification;

UNICEF United Nations Children's Fund;

UNRWA United Nations Relief and Works Agency for Palestine Refugees;

UNSF United Nations Special Fund.

“Rhodesia and Nyasaland” stands for the Federation of Rhodesia and Nyasaland.

The Republic of South Africa is so designated even where the material covers the period prior to 31 May 1961, when the country was known as the Union of South Africa.

Where statistical presentation has rendered it necessary, “Malaya” has been used to designate the Federation of Malaya and Singapore; “South Africa”, the Republic of South Africa, South West Africa and the High Commission territories of Basutoland, Bechuanaland and Swaziland; and “UAR” the United Arab Republic.
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Expansion of International Trade and Implications of Regional Economic Groupings

Part 2
STATE TRADING IN COUNTRIES OF THE ECAFE REGION*

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PART I. GENERAL ANALYSIS

INTRODUCTION

1. The United Nations Conference on Trade and Development will consider problems of trade between countries having different systems of economic organization and trade and it is believed that this report on State trading in countries of the Economic Commission for Asia and the Far East (ECAFE) region will be useful to the Conference in this connexion.

2. During recent years the direct participation of Government in trade has become more important in the ECAFE region and a variety of new institutions and methods have been employed by countries of the ECAFE region for carrying out this trade. These developments are of considerable significance for international trade, both in relation to market economies and centrally-planned economies as well as for the trade and development policy of each ECAFE country.

3. The present secretariat study consists of two parts: Part I contains a general analysis of the nature and scope, objectives and magnitude of State trading in countries of the region, the types of State trading enterprises in operation, their financing, their pricing and its significance for economic development* (item 1 of the list of main topics). (See Interim Report of the Preparatory Committee (first session), in Vol. VIII of this series.)

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* This paper has been prepared by the Secretariat of the United Nations Economic Commission for Asia and the Far East (ECAFE) in connexion with the item on "Expansion of international trade and
policies, and questions relating to special rights and privileges of State trading agencies.

4. Part II consists of a series of country studies, in the preparation of which valuable assistance has been received by the secretariat from member Governments in the supply of data. Some countries on which information was not available have not been included in this study.

DEFINITION OF STATE TRADING

5. State trading in the context of actual practices in the ECAFE region may be defined as direct participation by the Government (or its agent) in foreign trade including those trading activities in which the Government (or its agent holds title to exports before transactions and acquires title to imports.\(^1\)

6. The practical meaning of State trading as pursued by individual ECAFE countries becomes clearer upon an examination of its various aspects appearing in subsequent sections of this paper.

OBJECTIVES OF STATE TRADING

7. Depending upon the national goals or objectives of the country concerned, State trading is conducted for a variety of aims and purposes, of which those more commonly pursued by countries of Asia and the Far East are:

(a) To ensure adequate and regular supplies at reasonable and stable prices of essential commodities to meet local demand;
(b) To secure better prices for exports and imports products through increased bargaining power;
(c) To encourage production of essential agricultural and industrial commodities by means of price and other incentives;
(d) To stabilize the domestic prices of specified products by controlling their production and marketing;
(e) To explore export markets for products and to dispose of exportable surpluses of commodities;
(f) To secure the advantages of bulk transactions;
(g) To facilitate trade with centrally planned economies;
(h) To facilitate the import of goods financed under foreign aid programmes;
(i) To facilitate the implementation of trade agreements and barter deals;
(j) To transfer trade from the control of non-nationals;
(k) To direct trade in accordance with development policies;
(l) To raise revenues for the treasury;
(m) To influence the changes in the distribution of income derived from foreign trade operations;
(n) To facilitate sanitary and public health controls.

8. There is hardly any instance in which State trading is pursued to attain only one specific economic objective. Indeed, in most countries it is pursued for a mixture of economic and political objectives. In some countries (e.g., Burma and Indonesia) State trading in large sectors of import and export as well as in the domestic sector forms part of the larger national policies of their Governments.

9. State trading in foodgrains (in both the domestic and foreign sectors) in countries such as Ceylon, India, Indonesia, Japan, Malaysia, Pakistan and the Philippines is undertaken in order to ensure adequate and regular supplies of these commodities and to stabilize their domestic prices by controlling their production and marketing, apart from availing themselves of the benefits of bulk buying. Government trading is employed in Burma, Ceylon, Indonesia and the Philippines to secure transfer of trade from the control of non-nationals. In Burma, China (Taiwan), India and Thailand, State trading is pursued to explore markets for major export products, to dispose of exportable surpluses, and to secure better prices through increased bargaining power. In Australia and New Zealand State trading is aimed mainly at the orderly marketing of major primary exports and securing better prices. India is using State trading also to find markets for new products, especially manufactured goods. In the case of Burma, Ceylon, India and Indonesia, State trading has also facilitated the implementation of trade agreements and barter deals. In Cambodia, Nepal and Republic of Viet-Nam, Government participation in trade is largely directed at facilitating the importation of goods financed under foreign aid programmes.

MAGNITUDE OF STATE TRADING

10. Determining the importance of State trading is a rather elusive task for several reasons. First, there is the virtual impossibility of arriving at a clear-cut definition of State trading with precise coverage.\(^2\) Secondly, statistical data on the various sectors or elements of State trading are insufficient to permit an assessment of the quantitative significance of State trading for countries of the region.

11. Generally speaking, State trading in imports accounts for significant proportions of the total

\(^1\) It may be argued that State trading exists when the Government determines the kinds and quantities of goods traded as well as their geographical distribution and negotiates prices and terms of the transactions. This, of course, is a rather restrictive definition since there are many situations (e.g., comprehensive state controls and restrictions) in which, although private traders are the negotiators, they are in fact acting on behalf of the Government.

In many countries, State trading is part of a broader economic programme of the Government in the agricultural or industrial sector. For example, importation of foodgrains by the Government is only an aspect of the Government's policy of ensuring an adequate supply at stable prices and is closely connected with domestic price support and food distribution programmes. In cases of this sort, it is difficult to determine where foreign trade ends and domestic trade begins.

\(^2\) For example, in Australia the marketing boards negotiate prices and quantities of their major exports, but the actual export is effected by private traders. In Thailand, over 30 per cent of the rice exports fall within the scope of Government rice contracts and the Government's role consists in the negotiation of prices, quantities and delivery schedules, and in the conclusion of contracts with foreign Governments but the actual export is effected by private traders. As indicated elsewhere in this report, the nature and extent of direct Government participation in imports and exports vary widely from country to country and as between commodities. For these reasons, it is very difficult to determine what exactly should be included in State trading, when an attempt is made to assess the quantitative significance of State trading.
import values in several countries: Ceylon about 25 to 30 per cent, Burma ranging from 30 to 50 per cent, India 40 to 50 per cent, and Pakistan ranging from 30 to 50 per cent. (In Indonesia, the share should be quite substantial.) In these countries, the importance of State imports is accounted for by the large volume of imports of foodgrains and developmental goods and by State trading policies which have been actively pursued. In the other countries of the ECAFE region such as Australia, Japan, Malaysia, New Zealand, the Philippines and Thailand, Government imports do not appear to have the same importance.

12. In regard to exports it is noted that state trading is considerable in Burma (70 to 80 per cent), China (Taiwan) (60 to 70 per cent) and Indonesia (about 45 per cent). In Australia, the major items accounting for the bulk of the export values are handled through the marketing boards; while, in Thailand, inter-governmental rice contracts account for something like 30 per cent of the total volume of rice shipped. In Ceylon, State trading in export is limited to trade with the centrally-planned economies, while in India the share of Government exports in total export values is not considerable, being limited to a few items in which the State Trading Corporation has a monopoly. In other countries of the region, State participation in export trade is not significant.

13. There are indications that State trading in the ECAFE region is following an upward trend and that it will continue to become an increasingly important aspect of public policy in many countries of the region.

**Nature and scope of State trading operations**

14. The nature and scope of State trading as practised in the ECAFE region also vary from country to country and as between commodities. In the case of some exports, Government participation commences from their production and is carried through to their actual export. In some cases, Government participation is limited to exportation only. In yet others the Government's role extends to both procurement and export, apart from some indirect influence on production through incentives. In respect of a few, the State does not directly undertake production, procurement or even export, but it employs agents or principals for all these transactions, while holding only the title to the export. All these variations can be noted in the practices of ECAFE countries.

15. In some countries where State trading is an integral part of the economic activities of Government corporations in certain sectors (mining, forestry, industry, transportation) both vertical and horizontal integration of a wide range of activities is prevalent; in such cases, the role of the State extends from production through internal procurement and distribution to export and import of the goods involved.

16. In Australia, for example, the various marketing boards for wheat, dairy produce, eggs and sugar are largely concerned with procurement and price assurance, but the actual export and sale are effected through principals. In New Zealand, the marketing boards fix prices and also conduct both foreign and domestic trade. In Burma, all the varying practices are noticed: the Burma Economic Development Corporation, the Petroleum and Mineral Development Corporation, the Industrial Development Corporation and the State Timber Board are engaged in various processes including exploration, extraction, mining, manufacture, procurement, export, etc. On the other hand, the joint venture corporations in Burma are concerned only with import and distribution. Similarly, in China (Taiwan), while the Taiwan Sugar Corporation, which owns its own sugar estates and mills, is concerned with production, internal procurement and export, the Central Trust and Taiwan Supply Bureau are concerned mainly with export. The State Trading Corporation of India is largely concerned with export and does not undertake production directly, but it provides facilities for organizing the production of certain items and is in charge of the internal distribution and transportation of certain products. The National Trading Corporation in Nepal, the National Import and Export Office (ONIE) in Laos, the various Bhaktis in Indonesia and the Co-operative Wholesale Establishment (CWE) in Ceylon are concerned with import and/or export and, to some extent, with procurement and distribution, but not production. On the other hand, the Food Foundation in Indonesia, the Food Agency in Japan and the Abaca Corporation in the Philippines are concerned also with production, in addition to import, export and distribution. Thus it will be seen that these differences are largely based on the nature of the commodity and the special features of the internal distribution systems of the country concerned.

17. In regard to imports also, interesting variations are noticeable. Both importation and distribution are in some cases undertaken by the Government; in some cases only importation is by the Government, distribution being left to commercial channels. In some other cases, both importation and distribution are left to be conducted by agents or commercial channels, the State holding title to the goods. There are also examples of imports being pooled with internal supplies and distribution being organized among the domestic consumers on the basis of a pooling of prices with a view to ensuring supplies at reasonable and equitable prices: e.g., distribution of foodgrains, essential articles and materials for industry. Details of these different arrangements are described in the country reviews.

**Forms of State trading organization**

18. The forms of State trading organizations in countries of the ECAFE region are as varied as the methods of State trading and their commodity coverage in respect of both imports and exports. Various types of governmental trading organization have been established in the countries of the region, of which the most common is the public corporation. No one form of organization is adopted exclusively; so that, in many countries, there is a mixture of various forms, including marketing board, purchase office, supply mission, stores department, committee, purchasing authority, food agency, and import and/or export offices.

19. The most common type of organization is the trading corporation registered as a limited liability
company separate from the Government department and ministry. The Bhaktis in Indonesia, the joint venture and other corporations in Burma, the Ceylon Petroleum Corporation, the State Trading Corporation in India, the National Trading Corporation in Nepal, and the Central Trust of China and the Taiwan Sugar Corporation in China (Taiwan) are examples of this form of agency.

20. The marketing board type of organization is widely used in Australia, Burma and New Zealand in respect of their major export products, with specialization in products. On the other hand, the Indonesian Bhaktis (trading corporations) deal in both exports and imports, often in the same commodities; they compete with one another without any clear specialization in respect to the commodities involved. In Burma, the joint venture corporations and civil stores committees handle Government imports of various kinds with no clear-cut demarcation of lines of trade, while the Burma Economic Development Corporation co-ordinates and supervises a number of Government corporations engaged in a wide variety of economic activities including import, mining, industry, transport, etc.

21. In some countries, the trading corporations are limited liability companies registered under the company law of the country concerned. In others, they have the same legal status as private corporations. The marketing boards are invariably Government offices responsible to the ministries or departments concerned although their management is vested in a board of directors. In yet other countries, these trading boards are autonomous Government entities separate from Government departments and ministries.

22. The purchase and supply offices and missions are generally units of the appropriate ministries and departments, and some are located or have offices in principal supplying countries.

23. The difference in the organizational structure of trading organizations and their relative positions in the national administrative framework are largely influenced by administrative convenience and local circumstances and also by differences in the objectives, methods and coverage of State trading operations.

24. The legal form and status of a State trading agency can have a significant effect on its relative autonomy or lack of autonomy as well as on its efficiency and ability to follow commercial principles in its transactions. An autonomous public corporation may have certain advantages over a regular unit of a Government department. It does not necessarily follow, however, that purchase and trading offices and bureaux which are part of regular Government departments and ministries cannot or do not follow commercial principles in their operations. It is not possible to lay down any criteria for preferring one type of organization to another on general theoretical grounds, since the exact type of agency required will depend on the particular conditions of the country, especially its administrative and institutional tradition and structure and on the special requirements of the commodity or trade in question.

FINANCING OF STATE TRADING ENTERPRISES

25. State trading enterprises in countries of the ECAFE region derive their finance from various sources. In the case of public State trading corporations, the Government subscribes to their capital stock wholly or partially, depending upon the nature of the venture. They are also given access to the credit facilities of Government banks and financial institutions for their operating capital requirements. Trading organizations which are part of Government ministries to departments are usually provided with funds from the budgets of these offices just like any other Government unit. Their financial operations are thus limited to their respective budgets and those of their respective offices. There is, of course, a marked difference between these types of administrative and financial arrangements in that a public corporation naturally has greater financial flexibility as well as access to outside sources of finance including the freedom to plough back surplus earnings for expansion of its operations. The forms of State trading organization and their sources of finance are too varied to permit a generalization for the whole ECAFE region.

26. Many of the Government-owned trading corporations in Burma are financed from the Government budget like any Government office, while other trading organizations such as the Burma Economic Development Corporation and the State Timber Board are not consolidated into the national budget. In Ceylon, the Petroleum Corporation has its own initial capital of Rs 10 million, while the CWE and the Food Department draw their funds from the Government budget. In China (Taiwan), the Central Trust has its own capital and supplements it by earnings and profits. In Indonesia, State trading corporations have their own capitalization and operate on their respective budgets which must have the prior approval of the ministry concerned. The State Trading Corporation of India is a limited corporate body provided with its initial capital by the Government. It is essentially a self-financing organization and pays dividends to the Government at rates determined by the Board of Directors. In Nepal, the National Trading Company was incorporated under the Nepal Company Act 2007 BS with an authorized capital of Nrs 1 million subscribed to by the national Government. State trading enterprises in the Philippines are incorporated under their respective charters with capitalization provided by the Government. They operate under separate corporate budgets and are given access to Government banking and financial institutions for their operating capital. The marketing boards in Australia derive their revenues from levies on exports, proceeds of sales overseas and (when payable) from subsidies. They can also borrow from the Commonwealth Banking Corporation to enable them to make initial payments for produce on delivery. The National Import and Export Office of Laos enjoys financial autonomy and operates on its own budget from funds derived from the Government budget while the Civil Service Supply Store obtains its working capital from interest-bearing loans from the Government.
Pricing policies of State trading organizations

27. Like other aspects of State trading, the pricing policies of State trading enterprises in the ECAFE region differ as between enterprises within the same country and also as between countries of the region. Four basic types of pricing policy are generally adopted by countries of the region, namely (a) pricing which may result in losses to the State trading organization, such as in trading in foodgrains and certain other essential commodities; (b) pricing policy which provides for a certain margin of profit; (c) pricing policy based on a no profit or loss principle, and (d) merely charging traders commissions for assistance rendered to them in effecting transactions. These policies are not always pursued independently but are often employed in combinations which vary according to the commodity concerned and the social objective aimed at. In certain instances, one policy is applied for certain commodities and another for other types of products by the same trading organization or by different enterprises.

28. These observations can be illustrated with reference to the countries of the region. In Pakistan, the Government imports chemical fertilizers and sells them at subsidized prices as part of its "grow-more-food" campaign. On the other hand, it fixes prices for imported foodgrains based on the procurement price of indigenous foodgrains and the cost of imported grain, including cost of transport, milling, administration, etc. In the case of imported coal, sales of this commodity by the Pakistan Government are arranged through private traders on a "no profit or loss" basis. The National Trading Company in Nepal conducts its business also on a "no profit and no loss" basis. In Ceylon, the Food Department fixes the price of rice sold locally below its imported cost and the Government's losses in these transactions are met out of the profits made on sugar imports. Moreover, Government profits from the import of onions are used for financing the support programme to local onion producers. Indonesian State trading agencies generally pursue profit-making policies. In India, the pricing policy of the State Trading Corporation is generally one of profit-making on a commercial basis; while in the Philippines, the pricing policies of State enterprises generally involve some element of subsidy to the consumer in that the prices fixed are lower than those which would have obtained had the transactions been undertaken by private traders.

29. The Australian Wheat Board arranges for the sale of wheat on the most profitable terms and; by a system of pooling receipts from local and overseas sales, it distributes the proceeds to wheat growers. The export prices received by the Board are determined by supply and demand factors subject to the International Wheat Agreement and may be either higher or lower than the price for wheat sold domestically. A similar policy applies to sugar exports. Export prices of eggs are determined on a competitive basis for most destinations. The Burma Development Company pursues profit-making policies. Profits are apportioned to various uses, such as to the reserve funds of individual subsidiary companies, to welfare organizations of the defence services, etc. State trading enterprises in Japan, except for the domestic support programme on rice, barley and wheat, adopt profit-making policies which take into account the cost of production including a fair return on investment.

30. Available data do not permit an examination of the economic and fiscal consequences or implications of the divergent combinations of price policies pursued by State trading enterprises in the countries of the ECAFE region. It is obvious, however, that the price policies involving subsidies or taxes have a significant impact on the economic activities involved and on the budget of the country. A price policy that results in losses to the State trading enterprise, which by its nature operates on Government funds (assuming a minimum level of efficiency), has the effect of subsidizing the consumer. On the other hand, a profit-making price policy can have the effect of a tax, if the prices at which the imported commodities are sold include much higher profits than are charged by normal trade. In regard to exports, the effects will be much the same as taxes or subsidies according to whatever the exports are sold by Government agencies at prices higher or lower than the domestic acquisition prices (after allowing for the usual costs of services), with the difference that, if the incidence of the export tax is on the foreign importer, the tax proceeds bring in additional revenue to the tax-levying country and that, if the export price involves a subsidy, the revenue is correspondingly reduced.

31. Where Government trading enterprises function side by side and compete with private business firms, certain special problems can arise. If the State enterprise competes with private firms on an equal footing and without the advantage of special rights or privileges, it is reasonable to assume that the State enterprise will be unable to grant subsidies or impose taxes without being handicapped in its competitive position in the long run or without continually incurring losses which will have to be made good by the Government. On the other hand, if the State enterprise operates with the aid of special rights and privileges derived from the fact that it is a State enterprise, then its pricing policies, involving taxes and/or subsidies, will have different economic and fiscal implications. In such a situation, the State trading enterprise, especially if it controls a major share of the supplies and/or imports of a particular commodity, can continue to impose a tax on the consumer without being seriously affected by competition from private enterprise. The same effects will, however, be produced in cases in which private trading enterprises enjoy a monopolistic position in the trade.

Special rights and privileges of State trading enterprises

32. Some important issues in public policy are raised by the special rights and privileges enjoyed by Government trading enterprises. These can take many forms one of which is a monopoly or an exclusive right to import or export a particular commodity.

import and sale of some commodities in the domestic market, any special advantages and privileges accorded to State trading enterprises involve discrimination against private enterprises. There is need in such cases to recognize the principle of equitable and non-discriminatory treatment for both types of enterprise.

51. Government participation in the importation of foodgrains accounts for an important part of State trading, particularly in the food-deficit countries of the region. In those countries, State trading in these grains is pursued so as to ensure regular supplies and fair and equitable distribution to the population at reasonable prices.

52. Some countries of the ECAFE region find it useful in trading with the centrally-planned economies to provide such trade through governmental agencies in order to facilitate negotiations with the latter’s Government trading corporations. These methods and operations are significant in the development of trade relations between centrally-planned economies and the developing countries of the ECAFE region.

53. A substantial proportion of the import requirements of many ECAFE countries is obtained by Governments through open and competitive tenders on an international basis. This facilitates the observance of commercial principles and non-discrimination in Government trading.

54. In view of the considerably increased importance of State trading and of the variety and complexity of institutional and policy issues involved, it is considered desirable to convene an ad hoc meeting or working party on State trading, in which senior officials of State trading enterprises can be invited to participate.

PART II. COUNTRY STUDIES

Australia 7

55. There are three instrumentalities coming within the responsibility of the Commonwealth Government (and a fourth which operates under complementary Commonwealth and State legislation) which engage in the export trade. These are: (a) the Australian Wheat Board, (b) The Australian Dairy Produce Board, (c) the Australian Egg Board, and (d) the Queensland Sugar Board (complementary Commonwealth and Queensland legislation places this Board in a privileged position regarding the export of sugar).

56. These organizations are primarily concerned with the local production of commodities and their sale in Australia and overseas. As Australia is more than self-sufficient in the production of these particular commodities, the various Boards are not importers. Details of the constitution, organization and functions of the Boards are given below.

(a) Australian Wheat Board

57. The Australian Wheat Board was established by the Commonwealth Government at the outbreak of the Second World War. Under the related regulations, the Board was empowered, subject to directions of the Minister for Commerce and Agriculture, to purchase, sell or dispose of wheat or wheat products, manage and control all matters connected with the handling, storage, production, shipment, etc., of wheat.

58. The Board was reconstituted and vested with similar powers under the Commonwealth Wheat Stabilization Act of 1948 and under subsequent legislation for the purpose of administering the post-war wheat stabilization plan, and remains in existence. It consists predominantly of growers’ representatives: two each from New South Wales, Victoria, South Australia and Western Australia, and one from Queensland. The Chairman and remaining members are all ministerial selections, but two of them represent, respectively, flour, millers and employees. There is also a finance member and a commerce member.

59. Because of the importance of wheat as a crop in the Australian economy, the Government’s policy is to assure payable prices to efficient farmers who choose to grow it.

60. By virtue of State and Federal legislation, the Board receives all wheat grown in Australia for marketing, arranges for its sale on the most profitable terms and, by a system of pooling receipts from local and overseas sales, distributes the proceeds to growers.

61. The Board is concerned, with exports (but not imports). There is no restriction on the importation of wheat (other than for disease control). Exports are controlled by the Board. Sales for export are made in several ways including sales to Australian exporters acting as principals. The quantity of wheat exported is determined by normal commercial supply and demand factors. The full export surplus is available for overseas markets after local needs have been met.

62. Export prices received by the Board are determined by normal commercial supply and demand factors, subject to the International Wheat Agreement. They may be higher or lower than the price received for wheat sold domestically. No long term contracts have been entered into by the Board.

63. The Australian Dairy Produce Board, constituted under the Dairy Produce Export Control Act, 1925-1958, is a producer-controlled body, empowered to regulate the export of butter, cheese and casein. (Casein, a minor by-product of the dairy processing industry, is not important in world trade.) Exports may only be effected in accordance with a licence issued by the Minister for Primary Industry on the recommendation of the Board.

64. In practice, licences to private traders are issued only to those who have been appointed agents by butter, cheese or casein factories. However, private traders, if unlicensed, may export through one of these agents.

65. The Board as a trading authority does not physically handle the goods. It purchases butter and cheese destined for the United Kingdom from exporters who undertake the work and handling, and sells through appointed agents in London.

7 Source: Government of Australia.
66. Sales to European Government authorities are negotiated by the Board and the quantities are then apportioned between licensed exporters who become principals in the transactions. Sales to other markets are on a trader to trader basis. In 1961/62, the Board accounted for 88 per cent of total exports of butter and 78 per cent of cheese.

67. As stated earlier, the Board is concerned with exports of butter, cheese and casein (but not with imports). Private traders are allowed to import if they wish to do so. Quantities of cheese continue to be imported into Australia on a trader to trader basis. No butter has been imported into Australia for many years.

68. The Board is the sole exporter of butter and cheese to the United Kingdom, which takes 80 to 90 per cent of total Australian exports. Australia cooperates with the major exporting countries in an endeavour to achieve stability in the United Kingdom, the world's major market for export butter and cheese. The Australian equalization system has operated over the years in such a way that at times the domestic price has been below the export price for butter and cheese, even though in recent years the domestic price has exceeded the export price. No long term contracts have been entered into by the Board since 1955.

(c) Australian Egg Board

69. Prior to the Second World War, the marketing of eggs, both locally and for export, was controlled in some states by egg marketing boards, while in other states no statutory control existed. Commonwealth control over export marketing began in 1939 as a result of the war emergency.

70. Upon the expiry of the Commonwealth wartime powers under the National Security Regulations, the marketing of eggs within Australia became once again the responsibility of the respective states. However, in order to ensure continuance of an orderly export marketing system for Australian eggs and to provide adequate safeguards in respect of the contracts entered into between the United Kingdom and Australian Governments, the Australian Egg Board was constituted to operate from 1 January 1948 under the Egg Export Control Act, 1947.

71. The Board purchased from the State Boards eggs and egg products for shipment to the United Kingdom at the equivalent contract prices. The contracts provided an assured market for surpluses of Australian eggs and egg products until the end of May 1953. For frozen eggs, a further twelve months' contract with the United Kingdom Ministry of Food was arranged.

72. In 1954, the Egg Export Control Act was amended. This Act reconstituted the Australian Egg Board and varied its functions to some extent. Its chief purpose was to give the State Boards an opportunity to market their export eggs through a single authority, instead of in competition with each other as had been the practice pre-war. The Australian Egg Board, as reconstituted, is empowered to conduct trading operations on behalf of any of the State Boards which wish to avail themselves of the Board's facilities.

73. The Australian Egg Board is concerned with exports (but not with imports). The various State Boards are the only bodies licensed to export. Of the total exports of egg pulp and egg in shell in 1961/62, the shares of the Australian Egg Board were about 37 per cent and 16 per cent, respectively. The State Boards accounted for the bulk of exports. In practice all State Boards, except the New South Wales Board, market their shell eggs and egg pulp for the United Kingdom/Continent trade through the Australian Egg Board. Private traders are not restricted in regard to imports except on quarantine grounds.

74. The determination of the quantities to be exported is a matter for each State Board having regard to the surplus of production over domestic requirements. Each year there is a seasonal surplus and, in the interest of orderly marketing, the Australian Egg Board is empowered to regulate the timing of shipments for overseas markets. Export prices are determined on a normal competitive commercial basis for most destinations. The Australian Egg Board has no long-term contracts but it is empowered to conclude them.

(d) Queensland Sugar Board

75. The Sugar Board is constituted under the Queensland Sugar Acquisition Act. Under this act, the Board acquires all raw sugar produced in Queensland and, by arrangement with the Colonial Sugar Refining Company Limited, also acquires all raw sugar produced in New South Wales. Sugar is not produced in other states of the Commonwealth. The acquisition and marketing of all Australian raw sugar by the Sugar Board has been recognized for many years in the Commonwealth-Queensland Sugar Agreement, which was renewed in 1962.

76. The reason for the acquisition is to control the production and marketing of sugar. By means of the acquisition, the domestic price of sugar in Australia is controlled and the return to the raw sugar industry (i.e., growers and millers) is stabilized. Also, control over exports is maintained and compliance with the Commonwealth Countries Sugar Agreement and the International Sugar Agreement is facilitated.

77. As the Queensland Sugar Board becomes the owner of all raw sugar produced, it is the sole exporter of raw sugar from Australia. In 1961/62 the Board exported 828,000 tons of raw sugar valued at £A33.2 million. A small quantity of refined sugar (about 9000 tons annually) is exported by other traders (principally the Colonial Sugar Refining Company Limited) to neighbouring Pacific islands but this sugar has to be acquired from the Sugar Board, which therefore exercises control over this trade.

78. The Queensland Sugar Board is concerned with exports (but not with imports). The local market for sugar has been restricted to local suppliers for many years. (The cane sugar industry is largely responsible for the growth of the main ports and centres of population in the North-East coast of Australia. A number of secondary industries are based on the cane sugar industry, e.g., sugar processing.
machinery and cane-harvesting machinery, soft board manufacture and chemicals production.)

79. In Britain, the price for a substantial part of Australian sugar is determined annually on a set of criteria in the Commonwealth Sugar Agreement. For the remainder of Australian sugar sales in Britain and in other markets, prices are determined on supply and demand factors as modified by the provisions of the International Sugar Agreement and by legislation of the United States. At times, export prices for sugar have been above local prices and at other times local prices have exceeded export prices.

80. The Queensland Sugar Board is a party to the Commonwealth Countries Sugar Agreement between Commonwealth sugar producers and Britain. The Board is at liberty to enter into other long term contracts.

81. The marketing boards concerned derive their revenues from levies on exports, from the proceeds of sales overseas, and (when payable) Commonwealth subsidies. Each of the Commonwealth Boards relies on advances from the Commonwealth Banking Corporation to enable it to make initial payments for produce on delivery.

82. None of the Boards makes a profit, as all revenues received are distributed, after Board expenses have been deducted, to producers.

**BURMA**

83. There has been a trend toward an increase in the sphere of State trading in Burma. The Government stated in February 1963 that complete nationalization of export and import trade is its ultimate objective, but no target date has been set. As nationalization was in progress throughout 1963, the information in this section represents the position as of mid-1963.

84. Exports of rice, teak and rubber are Government monopolies. The export value of these three commodities constitutes about 80 per cent of Burma's total exports. The degree of Government monopoly in import trade is less than in export; only imports of drugs and pharmaceutical products, the value of which account for about 3 per cent of Burma's total imports, are a Government monopoly. However, there are a number of State trading organizations that handle imports as well as distribution of imported goods. Table 1 shows that the share of government imports in total imports of Burma increased from 23 per cent in 1956 to over 50 per cent in 1960 and fell to 39 per cent in 1962.

85. The Government budget shown in Table 2 gives some indications as to the significance of State trading in Burma, although not all Government-owned corporations' receipts and expenditures are reflected in the budget. For instance, the operation of the nationalized firms controlled by the Burma Economic Development Corporation was not consolidated in the Government budget.

**Union of Burma Agricultural Marketing Board (UBAMB)**

86. When Burma attained independence in 1948, the Government decided to bring the paddy and rice trade under its control and to guarantee cultivators a fixed price for paddy through the Agricultural Marketing Board (SAMB). The organization, of which the name was recently changed to the Union of Burma Agricultural Marketing Board (UBAMB), is entrusted with conducting negotiations for sales of rice to foreign Governments and private buyers. Its statutory functions are to manage, supervise and improve the processing and marketing of agricultural products. It procures rice and rice products from farmers and millers at guaranteed prices. Total purchases by the UBAMB amounts to between one-third to two-fifths

---

**Table 1**

<table>
<thead>
<tr>
<th>Year</th>
<th>Total (in millions of Kyat)</th>
<th>Government</th>
<th>Percentage share of Government</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Exports</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1956</td>
<td>1 143</td>
<td>747</td>
<td>65.3</td>
</tr>
<tr>
<td>1957</td>
<td>1 163</td>
<td>846</td>
<td>72.7</td>
</tr>
<tr>
<td>1958</td>
<td>929</td>
<td>658</td>
<td>70.8</td>
</tr>
<tr>
<td>1959</td>
<td>1 065</td>
<td>763</td>
<td>71.6</td>
</tr>
<tr>
<td>1960</td>
<td>1 154</td>
<td>797</td>
<td>69.1</td>
</tr>
<tr>
<td>1961</td>
<td>1 057</td>
<td>729</td>
<td>70.0</td>
</tr>
<tr>
<td>1962</td>
<td>1 286</td>
<td>820</td>
<td>63.8</td>
</tr>
</tbody>
</table>

*Sources: Union Bank of Burma, Annual Reports 1957-1961; Selected Monthly Economic Indicators, November 1963, Central Statistical and Economics Department, the Revolutionary Government of the Union of Burma.*

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**Table 2**

| Budget of government sector (Union of Burma and State budgets) (in millions of Kyat) | 1960/61 | 1961/62 | 1962/63*
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total receipts</td>
<td>3 409</td>
<td>3 474</td>
<td>3 866</td>
</tr>
<tr>
<td>Of which:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current receipts from State trading</td>
<td>2 124</td>
<td>1 996</td>
<td>2 275</td>
</tr>
<tr>
<td>Capital receipts from State trading</td>
<td>10</td>
<td>18</td>
<td>6</td>
</tr>
<tr>
<td>Total expenditures</td>
<td>3 544</td>
<td>3 421</td>
<td>3 966</td>
</tr>
<tr>
<td>Of which:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current expenditures of State trading</td>
<td>2 022</td>
<td>1 825</td>
<td>2 072</td>
</tr>
<tr>
<td>Capital expenditures of State trading</td>
<td>303</td>
<td>252</td>
<td>469</td>
</tr>
</tbody>
</table>


*Budget estimates.*
of the total rice production of the country. Private trade in paddy or rice for internal consumption is free in the sense that, for internal distribution by private channels, consumer prices are not fixed. Nearly all the domestically marketed rice moves to the consumers through private commercial channels. However, Government rice policy does influence the price of locally consumed rice. The fact that farmers can sell their paddy to UBAMB at a guaranteed minimum price has some effect on the price at which private traders may purchase paddy for the domestic market. UBAMB sells on the export market most of the rice which it procures; only relatively small quantities are released in the domestic market at fixed prices when and where the market prices tend to rise too high.

87. Table 3 shows UBAMB’s surplus (after taxes) on current account, part of which was used in the modernization and expansion of rice processing and storage facilities, including construction of modern rice mills and rice bran oil extraction plants. 

88. UBAMB is headed by the Minister of Trade Development, who acts as Chairman of the Board. Other members of the Board include three Deputy Chairmen and representatives of the Ministry of Trade Development, Ministry of Agriculture and Forests, Ministry of Co-operation and Commercial Development and Ministry of Finance and Revenue.

State Timber Board (STB)

89. The State Timber Board was established to take the place of five pre-war British firms. Its functions include the extraction, milling and marketing of teak and other hardwoods. While the total teak production of Burma has been increasing steadily towards the pre-war level, the production under private operation has remained constant and its share has diminished. On the other hand, the share of STB teak production grew steadily from 75 per cent in 1956/57 to 90 per cent in 1961/62. The STB purchases logs and lumber from private operators and millers for export together with its own logs and sawn timbers produced by its mills.

90. The Board pays the usual royalties and income tax to the Government. It had a net surplus of 4.9 and 1.4 million Kyat in 1959/60 and 1960/61, respectively, but its estimated budgets show that there were net deficits of 15.6 and 11.7 million Kyat in 1961/62 and 1962/63, respectively.

Rubber Export and Development Corporation

91. Exports of rubber were formerly handled by the Rubber Export Corporation which was under the control of the Government-owned Commerce Development Corporation established in 1954 for the purpose of developing import and export trade of Burma. The Rubber Export Corporation was liquidated in January 1961 and replaced by the Rubber Export and Development Corporation. It became a subsidiary of the Civil Stores Committee III when the latter assumed the functions of the Commerce Development Corporation in 1 October 1962.

Civil Stores Committee I

92. Civil Stores Committee I, formerly known as Union of Burma Purchase Board, is a Government agency which has a monopoly in the supply of 25 types of goods, including building materials, hardware goods, paints, explosives, office equipment, electric equipment and manufactures of ferrous and non-ferrous metals, for the use of Government agencies, Government corporations and local Government bodies.

Civil Stores Committee II

93. Civil Stores Committee II, formerly known as the Civil Supplies Management Board, procures and distributes consumer goods to the general public through consumer co-operatives and retail shops. Goods handled by this Committee include sugar, condensed and evaporated milk, textiles, cotton and silk yarn, corrugated iron, cement, and jute manufactures. It also procures for government employees such goods as textiles, toilet and various household products. Lately, it has taken over the distribution function of the Joint Venture Corporations.

Civil Stores Committee III

94. Civil Stores Committee III, known until 30 September 1962 as Commerce Development Corporation, controls the Joint Venture Corporations and the Rubber Export and Development Corporation.

95. There were originally eleven Joint Venture Corporations (JVC) established in 1957-1958 as public limited companies, each with an initial capital of 5 million Kyat, of which 52 per cent was paid up by the Government and the balance by Burmese nationals. They were formed to bring down commodity prices and to promote the trade of Burmese nationals. Originally, the main functions of the JVC were in the field of imports and in the distribution of various consumer goods and industrial materials. They once had a monopoly in the imports of foodstuffs, textiles and hardware, but this monopoly was subsequently relinquished. The JVCs are intended, in principle, to compete with one another and with private firms. JVCs Nos. 6 and 7, which were concerned with imports and distribution of certain industrial raw materials, were dissolved on 31 March 1959 and industries were thereafter allowed to import these materials for their own use. JVCs Nos. 8, 9, 10 and 11 were directed to

<table>
<thead>
<tr>
<th>Fiscal year</th>
<th>Surplus on current account</th>
<th>Contribution to government budgets</th>
</tr>
</thead>
<tbody>
<tr>
<td>1959/60</td>
<td>293</td>
<td>125</td>
</tr>
<tr>
<td>1960/61</td>
<td>71</td>
<td>66</td>
</tr>
<tr>
<td>1961/62</td>
<td>41</td>
<td>38</td>
</tr>
<tr>
<td>1962/63</td>
<td>18</td>
<td>5</td>
</tr>
</tbody>
</table>


Estimates.
limit their activities to certain territories of the country assigned to them. From 1 January 1963, the retail distribution activities of JVCs were discontinued and transferred to the Civil Stores Committee II and the Wholesale Co-operative Society.

96. A change in the procurement system took place under the Revolutionary Government. Under the previous system, each JVC purchased goods of its choice on its own responsibility, except in special cases. The new system requires that decisions on purchases be made by the Civil Stores Committee III, where all the JVCs are represented by their Chairmen.

97. The Government did not invest directly in the JVCs, but it granted loans to the Commerce Development Corporation (CDC) which in turn invested in shares of the JVCs. The following table shows the amount of JVC dividends received by the CDC in recent years and the repayments made by CDC to the Government, but no information is available as to the amount of outstanding loans.

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>JVC dividends received by CDC</th>
<th>Loans repaid by CDC to Government</th>
</tr>
</thead>
<tbody>
<tr>
<td>1956/60</td>
<td>1.65</td>
<td>—</td>
</tr>
<tr>
<td>1960/61</td>
<td>3.9</td>
<td>—</td>
</tr>
<tr>
<td>1961/62</td>
<td>2.8</td>
<td>4.5</td>
</tr>
<tr>
<td>1962/63</td>
<td>1.9</td>
<td>1.0</td>
</tr>
</tbody>
</table>


98. The Burma Economic Development Corporation (BEDC) was established in May 1961 under Act No. 18 of 1961 with the objective of co-ordinating, supervising and helping to finance the activities and operations of the nineteen subsidiary companies of the Defence Services Institute. The number of companies declared fully and partly Government-owned and transferred to the control of the BEDC increased to thirty-three in 1962 and thirty-six in mid-1963. (A list of them is given in appendix B.) The operation of BEDC subsidiaries covers an extensive range of activities including imports, exports, shipping, mining, sawmilling, public transport, construction, engineering, fishing, book publishing, department store retailing, radio assembly, automobile repair, tourist agency, hotelier and restaurateur, animal husbandry, banking, insurance, shoe manufacturing, textile manufacturing and plywood manufacturing.

99. The distribution of profits, according to the Burma Development Company (Amendment) Act No. 30 of 1962, is as follows:

- To reserve funds of individual subsidiary companies, 10 per cent;
- To recognized welfare organizations of the Defence Services, 15 per cent of remainder;
- To reserve funds of all subsidiary companies, 65 per cent;
- To the Government, 20 per cent.

100. The Administration of BEDC is headed by the Chairman of the Revolutionary Council who may delegate his authority to any person.

101. Other State trading agencies include the following. The Petroleum and Mineral Resources Development Corporation deals with the mining and marketing of tin, wolfram, coal, iron ore and copper and the extraction and sales of petroleum. The Burma Corporation Limited deals with the mining and marketing of lead, nickel, silver, zinc, and copper. The Agricultural and Rural Development Corporation, which is directly under the Agriculture and Forests Department, promotes new crops which have hitherto not yet been introduced or are not yet popular with the farmers. It imported a large number of tractors and other agricultural equipment and has a plan to erect a tractor assembly plant. The Industrial Development Corporation, which is under the direction of the Industry Department, operates sugar, jute, textiles and cement mills. There is also a new State monopoly, the Burma Drug House Limited, which was created in March 1959 for the import of drugs and medicines; since when the existing importers of drugs and medicines have been confined to distribution.

CAMBODIA

102. There are no State trading enterprises in Cambodia as defined under Article XVII of the General Agreement on Tariffs and Trade (GATT). However, the following Government entities engage in the import trade: (a) Office for Purchases Abroad, (b) Royal Office of Co-operatives, and (c) Office of State Enterprises.

103. The Office for Purchases Abroad deals with the import of Government requirements. The Royal Office of Co-operatives imports goods needed by the consumers' co-operatives. The Office of State Enterprises imports goods financed under foreign aid programmes for use in foreign aid projects.

CEYLON

104. State trading in Ceylon was mainly confined to the imports of essential foodstuffs and to trade with certain centrally planned economies. However, the role of State trading has been growing, especially in the field of general imports and distribution of imported goods.

Imports

105. The Food Department is the sole importer of paddy, rice, sugar, sugar candy, palm sugar, wheat, wheat flour, onions, lentils and maldive fish. The value of these imports constitutes about one-fourth of Ceylon's total imports (Table 4). The purpose of the Government monopoly of these imports is to maintain, control and regulate the supply of these foodstuffs so as to secure their sufficient and equitable distribution and availability at fair prices. Rice, the main commodity dealt with by the Food Department, is imported mostly on long-term contracts notably from Burma, mainland China and the United Arab

* Based on information received from the Government of Cambodia.
Table 4

Ceylon's imports of principal foodstuffs (exclusively handled by the Department of Food), 1958-1962
(In thousands of rupees)

<table>
<thead>
<tr>
<th>Item</th>
<th>Volume cwts.</th>
<th>Value (in thousands of rupees)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Paddy</td>
<td></td>
<td>237 837</td>
</tr>
<tr>
<td>Wheat</td>
<td>5</td>
<td>492</td>
</tr>
<tr>
<td>Wheat flour</td>
<td>4 209</td>
<td>67 020</td>
</tr>
<tr>
<td>Sugar</td>
<td></td>
<td>3 160</td>
</tr>
<tr>
<td>Sugar candy</td>
<td>1</td>
<td>62</td>
</tr>
<tr>
<td>Palm sugar (Jaggery)</td>
<td>134</td>
<td>2 636</td>
</tr>
<tr>
<td>Red onions</td>
<td>13</td>
<td>214</td>
</tr>
<tr>
<td>Other onions</td>
<td>991</td>
<td>17 470</td>
</tr>
<tr>
<td>Dhall (Lentils)</td>
<td>790</td>
<td>30 503</td>
</tr>
<tr>
<td>Maldive fish</td>
<td>59</td>
<td>11 142</td>
</tr>
</tbody>
</table>


Value of total import trade: 1 716 639 (1958), 2 004 924 (1959), 1 959 622 (1960), 1 703 337 (1961), 1 659 574 (1962)

Percentage of import by Food Department in Ceylon's total imports: 26% (1958), 26% (1959), 22% (1960), 25% (1961), 23% (1962)

Republic. The costs of imports are sometimes higher than the resale price fixed by the Government for rationed rice and the Government's loss in the transactions is partly borne by the profits made on sugar imports. The import of sugar is also on long-term contracts and is sold at a profit and the profits are used towards financing food subsidy schemes. The recent purchases of flour by the Food Department were from the Governments of Australia and the United States. Part of the purchases were bought on open tender. The price of flour to the consumer is fixed by the Food Commissioner. The quantity of onions necessary to meet the gap between local production and consumption is met by the Food Department's imports. The internal price of onions is fixed on the basis of the guaranteed price given to the local producers. A profit on the imported onions is used towards financing the payment of the guaranteed price to local producers. As the price of lentils is subject to wide fluctuations, quotations are called every week. The internal price is fixed, and whether the Food Department makes a profit or not depends on the world market price of lentils. Maldive fish is obtained directly from the Maldive Islands and the purchase price is fixed by a trade agreement. Very small quantities of wheat were imported: about 100 tons every two to three months.

107. CWE, which was started in 1943 as an emergency Government measure to handle the imports of essential foodstuffs for distribution through co-operative societies, was divorced from direct Government control and re-constituted into a statutory corporation under the CWE Act No. 47 of 1949. It has remained wholly financed by the Government and comes under the purview of the Ministry of Commerce, Trade, Food and Shipping. The objectives of CWE as defined by the Act are: (a) to procure and supply the requirements of co-operative societies and unions; (b) to carry on business as importers and exporters and as wholesale and retail dealers in goods of every description; (c) to carry on any such other trade or business as may be incidental or conducive to the attainment of these objectives.

108. Imports from mainland China both under commercial and Government arrangements, except for the food items exclusively dealt with by the Food Department, are handled by CWE. In recent years, CWE's activities have extended to general import business which includes representing foreign manufacturers of consumer goods such as radios, electrical equipment and household appliances. It has also entered into the import trade of drugs, chemicals and fertilizers. CWE has an active role in the implementation of the Government policy of “Ceylonizing” foreign trade. In principle, it competes with private traders and is given no special treatment in respect of import licensing, except in the case of imports from
mainland China and imports of dried and salted fish, dried fruits, walnuts, and cummin seed.

109. The following figures show the rapidly growing volume of import trade handled by CWE and its increasing share in Ceylon's total imports from 1960 to 1962:

<table>
<thead>
<tr>
<th>Year</th>
<th>Imports by CWE (In millions of rupees)</th>
<th>Ceylon's total imports</th>
<th>Share of CWE in total imports</th>
</tr>
</thead>
<tbody>
<tr>
<td>1960</td>
<td>38.79</td>
<td>1,959.62</td>
<td>2</td>
</tr>
<tr>
<td>1961</td>
<td>52.34</td>
<td>1,703.34</td>
<td>3</td>
</tr>
<tr>
<td>1962</td>
<td>81.45</td>
<td>1,659.57</td>
<td>5</td>
</tr>
</tbody>
</table>

Although CWE continues to serve as a medium of distribution for co-operative societies, it functions as a wholesale establishment for private retailers as well. From 1961, CWE has been actively engaged in retail trade through opening up CWE retail outlets especially in rural areas.

**Exports**

110. State trading in exports is much less than in imports and is concentrated mainly on exports under bilateral trade arrangements which amounted to 6 to 12 per cent of Ceylon's total exports in 1959-1962. All exports to mainland China and some to other centrally-planned economies are handled through State trading agencies. Licences for rubber to be exported to mainland China are issued only to the Commissioner of Commodity Purchase by the Controller of Imports and Exports under the Defence (Control and Exports) Regulation. From 1961, the Commissioner of Commodity Purchase has been made the sole exporter of rubber to Poland and, from 1962, to Bulgaria and Romania as well. According to Ceylon's trade agreements with these countries, the prices of rubber are usually determined on the basis of Singapore prices plus a small premium.

111. CWE entered into the export trade in 1961. Its turnover was only a fraction of its import trade: Rs 236,427 in 1961 and Rs 14,192,318 in 1962, out of Ceylon's total exports of Rs 1,080 million and Rs 1,766 million in 1961 and 1962, respectively. From 1 December 1962, CWE has been the sole shipper of tea to the United Arab Republic, in order to facilitate the implementation of an agreement between CWE and the General International Trading Company of the United Arab Republic. It also exports tea, rubber and coconut products to Eastern Europe and the Soviet Union.

**State trading in petroleum products**

112. The Government-owned Ceylon Petroleum Corporation started operations on 1 June 1961 with an initial capital of Rs 10 million. It imports petroleum products from the United Arab Republic and the Soviet Union. In 1962, the Government nationalized about 20 per cent of distribution facilities of other oil firms in Ceylon for the use of the Corporation. It was announced by the Government on 5 June 1963 that a monopoly on internal distribution of petroleum products would be effective from 1 January 1964, except for aviation fuels and bunkers. On 22 August 1963, the Ceylon Petroleum Corporation (Amendment) Act No. 5 was enacted whereby the Government is empowered to assign to the Ceylon Petroleum Corporation the sole right to import and distribute petrol, kerosene, diesel oil and furnace oil from 1 January 1964. The Act also vested in the Corporation with the exclusive right to explore for and exploit, produce and refine petroleum in Ceylon from 1 January 1964. The date may be advanced at the discretion of the Government.

**CHINA (TAIWAN)**

113. State trading is carried out mainly for the purpose of handling purchases of regular Government departments and Government-owned or operated...
internal and external trade. Three others, namely the Taiwan Supply Bureau, the Taiwan Sugar Corporation and the Central Trust of China (CTC) which engages in commodities, and raising revenues.

114. The most important State trading agency is the Central Trust of China (CTC) which engages in internal and external trade. Three others, namely the Taiwan Supply Bureau, the Taiwan Sugar Corporation and the Provisional Tobacco and Wine Monopoly Bureau are also engaged in foreign trade.

115. CTC has been in operation since as early as 1935 although for the purpose of the National Government of China, its beginning dates back to the promulgation of its charter on 7 May 1947. It was established to conduct trust, insurance and savings business. Its State trading operations are carried out under its trust business.

116. Procurements which include imports and domestic purchases are handled by its Purchasing Department. They include: (1) all materials and equipment required for the operation of Government organizations and Government enterprises, (2) purchases for the military arm of the Government (3) purchases financed with United States Aid funds or loans and (4) centralized purchases of materials and equipment essential to the national economy. CTC has branch offices or representatives in Tokyo, New York, Paris, Singapore, Bangkok, Seoul and Saigon. Except where the purchase has to be made through direct negotiations with the supplier or manufacturer, purchases are made through open and public tenders. Since CTC acts only as a procurement agent for imports, the Government organizations served have to get the approval of the Foreign Exchange and Trade Control Commission for the allocation of the foreign exchange needed. Special regulations are applicable to United States aid procurements and the Council for United States Aid supervises the tender openings and award of contracts. CTC handles the distribution of surplus commodities imported under the United States Aid Programme.

117. On the export side, CTC handles a number of major items, namely rice, salt, aluminium, caustic soda, cotton piecegoods and yarn, canned pineapple and fertilizers. It also carries out the exportation of sugar to Japan and sometimes of the products of the Tobacco and Wine Monopoly Bureau.

118. The Trust receives from its clients a handling commission of 1 to 1\(\frac{1}{2}\) per cent of the value of the commodities procured or sold.

119. The operations of CTC are financed through the capital subscription of the Government and the money that it earns. On the whole, the agency has made profits under its charter: 30 per cent of the net profit is designated as surplus and, with the approval of the Ministry of Finance, a certain percentage may be set aside as an employees’ welfare fund. The balance is transferred to the national treasury.

120. The Taiwan Supply Bureau handles the export of canned fish, handicrafts, paper and pulp, worsted yarn and goods, hats, starch, sewing machines, bicycles and other items. It also engages in the importation of a wide range of items. It procures its imports through a system of competitive tenders. It has to obtain allocation for foreign exchange from the Foreign Exchange and Trade Control Commission. The activities of the Taiwan Supply Bureau are aimed at facilitating the domestic supply of materials to industry and at stabilizing prices.

121. The export of sugar, except to Japan, is the monopoly of the Taiwan Sugar Corporation, which owns plantations accounting for 30 per cent of the whole sugar-cane acreage and twenty-seven sugar mills in Taiwan. The Corporation guarantees a minimum price for sugar-cane purchased from the growers.

122. The Provisional Tobacco and Wine Monopoly Bureau engages in foreign trade purely for fiscal reasons.

123. The prices of goods handled by the State trading agencies have been determined generally by the factors of free competition, or by supply and demand conditions. However, export prices are sometimes made lower than domestic prices as a means of promoting exports.

124. Long-term contracts are negotiated by CTC or its branch offices abroad in connexion with the supply of fertilizers, industrial plants and other essential goods. State trading methods are used to fulfill contractual obligations of the Government through State-sponsored institutions.

125. The greater portion of export and import trade is in the hands of private traders whose operation is, nevertheless, subject to import control regulations for balance-of-payments reasons. Even where State trading agencies are responsible for trade in specified import and export items, private traders are employed as agents or given contracts on the basis of competitive tenders. But the participation, of the State trading agencies, particularly CTC, has been so extensive and undertaken in such a manner as to result in direct benefits to the economy. In respect of imports, CTC has been able to obtain competitive prices and to explore all possible sources of important supplies. In respect of exports, it has succeeded in securing large and stable markets and in obtaining better prices. CTC has been useful in facilitating the fulfilment of commitments.

INDIA

126. State trading has an important share in India’s import trade, the Government being the largest single importer. The figures contained in Table 6 give some idea of the magnitude of funds spent on imports by the Government during the years 1951-1952 to 1961-1962. Government imports rose from Rs 2831 million ($595 million) in 1956-1957 to Rs 4785 million ($1005 million) in 1960-1961 and were provisionally placed at Rs 3780 million ($794 million) in 1961-1962. Apart from defence stores, large and varied imports of Government requirements for maintenance and development (capital goods, railway materials, etc.) account for the bulk of these expenditures. The imports of foodgrains and sugar, of which India is a large importer, are also undertaken directly by the Government with a view to ensuring adequate supplies and distribution at reasonable prices. In addition, a few other commodities, such as iron and steel, fertilizers,
etc., of which the internal production is not adequate to meet the growing home demand, are being imported on government account with the same object in view. Table 7 indicates the value of wheat, rice, fertilizers, and iron and steel imported into India during the years 1958-1959 to 1961-1962.

Government purchase agencies

127. The various import needs of the public sector are obtained by the ministries and government departments concerned directly through the system of open competitive tenders as well as through the State Trading Corporation of India, the latter being largely used as a channel for imports under bilateral trade and payments and credit arrangements. Government requirements are also purchased by the Indian Stores Department, London, and the Indian Supply Mission, Washington. The Directorate-General of Supplies and Disposals (DGSD) is another Government purchasing agency whose purchases are generally limited to local stores. DGSD, however, also makes purchases from abroad wherever necessary.

128. Ad hoc purchase and trade missions are also sent abroad from time to time for purchase of specialized requirements.

Table 7

<table>
<thead>
<tr>
<th>Year</th>
<th>Wheat</th>
<th>Rice</th>
<th>Iron and steel</th>
<th>Fertilizers</th>
</tr>
</thead>
<tbody>
<tr>
<td>1958-1959</td>
<td>1,54</td>
<td>408</td>
<td>924</td>
<td>92</td>
</tr>
<tr>
<td>1959-1960</td>
<td>1,298</td>
<td>163</td>
<td>843</td>
<td>163</td>
</tr>
<tr>
<td>1960-1961</td>
<td>1,532</td>
<td>224</td>
<td>1,225</td>
<td>96</td>
</tr>
<tr>
<td>1961-1962</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>


Government exports

129. On the side of exports, direct State participation is not so large (Table 8) and is mainly through the State Trading Corporation of India, which deals not only with imports but also with exports.

Table 8

<table>
<thead>
<tr>
<th>Year</th>
<th>Total exports</th>
<th>Exports on Government account</th>
<th>Exports on Government account as percentage of total exports</th>
</tr>
</thead>
<tbody>
<tr>
<td>1951-1952</td>
<td>7,010</td>
<td>160</td>
<td>2.2</td>
</tr>
<tr>
<td>1952-1953</td>
<td>6,019</td>
<td>118</td>
<td>2.0</td>
</tr>
<tr>
<td>1953-1954</td>
<td>5,397</td>
<td>62</td>
<td>1.1</td>
</tr>
<tr>
<td>1954-1955</td>
<td>5,966</td>
<td>8</td>
<td>0.1</td>
</tr>
<tr>
<td>1955-1956</td>
<td>6,403</td>
<td>21</td>
<td>0.3</td>
</tr>
<tr>
<td>1956-1957</td>
<td>6,352</td>
<td>22</td>
<td>0.3</td>
</tr>
<tr>
<td>1957-1958</td>
<td>6,685</td>
<td>815</td>
<td>12.2</td>
</tr>
<tr>
<td>1958-1959</td>
<td>5,759</td>
<td>62</td>
<td>1.1</td>
</tr>
<tr>
<td>1959-1960</td>
<td>6,233</td>
<td>53</td>
<td>0.8</td>
</tr>
<tr>
<td>1960-1961</td>
<td>6,305</td>
<td>62</td>
<td>1.0</td>
</tr>
<tr>
<td>1961-1962</td>
<td>6,675</td>
<td>71</td>
<td>1.1</td>
</tr>
</tbody>
</table>

Source: Balance of payments data contained in the Reserve Bank of India Bulletins, Reserve Bank of India, Bombay.

State Trading Corporation of India (STC)

130. The State Trading Corporation of India (STC) was established in 1956. In view of the significant role it has come to play in India's foreign trade during this short period, an attempt is made in the following paragraphs to analyse its organization and functions as well as its effectiveness in the implementation of the Government's trade and economic policies.

Organization and functions of STC

131. Although wholly State-owned and State-managed, the State Trading Corporation of India is a limited company registered under the Indian Companies Act of 1956 and functions as an autonomous commercial organization. The role of the Corporation has been to undertake trading generally with State trading countries as well as with other countries in commodities entrusted to it, to explore new markets for traditional commodities and to develop new export markets, and to undertake at the instance of Government, import and/or internal distribution of commodities in short supply with a view to stabilizing prices and rationalizing distribution, and generally to implement such special arrangements for import/export and/or internal distribution of particular commodities as the Government
may adopt in the public interest.\textsuperscript{10} The Corporation has been granted the monopoly of import and export of certain commodities for which bulk-contracting and bulk-handling are considered advantageous or which are in short supply and present peculiar problems of fair distribution. It has also been entrusted, to a limited extent, with some highly speculative commodities, trading in which yields a high margin of profit. In addition, it is handling the export of some commodities, the export of which is otherwise difficult due to high internal costs. It has exclusive rights to the export iron ore,\textsuperscript{11} salt and cement. Imports of caustic soda, soda ash, raw silk, tin and ball-bearings are also being exclusively handled by the Corporation. In addition, a large share of imports of certain commodities is being channelled through the Corporation for the purpose of arranging barter deals, gaining favourable terms or to stabilize internal prices. These commodities include copper, zinc, lead, betel nuts, clove, cassia and copra.

\textsuperscript{10} The State Trading Corporation of India, New Delhi, \textit{Annual Report 1961-1962}.

\textsuperscript{11} The Government of India has recently decided to establish another State trading corporation to handle the export of metal ores.

### Total trade handled by STC

132. During the fiscal years 1959-1960 and 1961-1962, 3 to 5.6 per cent of India's total exports and 1.4 to 3 per cent of her total imports were channelled through the State Trading Corporation of India. The value of total trade handled by the Corporation rose sharply from Rs 285.8 million ($60.02 million) in 1957-1958 to Rs 646.9 million ($135.85 million) in 1960-1961 and Rs 773.9 million ($162.52 million) in 1961-1962.

133. The main achievement of the Corporation is in the field of exports, where it has proved instrumental in promoting trade in a large number of items both traditional and new. India's exports of iron ore, in which the Corporation enjoys a monopoly, rose from 1,835,000 metric tons in 1956 to 3,072,000 metric tons in 1961-1962. The exports of other mineral ores channelled through the Corporation also registered significant increases (Table 9). In addition, it has succeeded in finding new markets\textsuperscript{12} for some of India's traditional exports and in introducing a

\begin{table}[h]
\centering
\caption{Quantities of the commodities trade by the State Trading Corporation of India}        
\begin{tabular}{|l|l|l|l|}
\hline
\textbf{Commodity} & \textbf{Unit} & \textbf{1960-1961} & \textbf{1961-1962} \\
\hline
\textbf{Exports} & & & \\
Iron ore & M/T & 3,072,151 & 3,105,961 \\
Manganese ore & M/T & 865,476 & 744,292 \\
Manganese dioxide & M/T & 1,848 & 1,162 \\
Mica & lb & 208,462 & 474,630 \\
Chrome ore & M/T & 36,654 & 30,903 \\
Bauxite & M/T & 18,440 & 48,372 \\
Kyante ore & M/T & 1,144 & 95 \\
Red oxide of iron & M/T & 11 & 1 \\
Ferro-manganese & lb & 48,106 & 64,447 \\
Stone chips & c. fl. & — & 879,637 \\
Salt & M/T & 327,502 & 21,798 \\
Tobacco & Bales & 17,259 & 17,737 \\
Jute goods & Bales & 15,198 & 1,451 \\
Shellac & M/T & 7 & 138 \\
Wooden fabrics & Yds & 251,751 & 146,276 \\
Shoes & Pairs & 543,669 & 344,500 \\
Coffee & M/T & 964 & 1,151 \\
Masoor Dal & M/T & 6,736 & 5,986 \\
Sheep casings & Hanks & 5,000 & 2,500 \\
Lemon grass oil & Kilos & — & 5,000 \\
Cotton yarn & Bales & — & 14,208 \\
Handloom fabrics & — & — Sundry items & — Sundry items \\
\hline
\textbf{Imports} & & & \\
Wheat & M/T & 39,929 & 404,726 \\
Cotton & Bales & 65,818 & 19,026 \\
Copper in commodity & M/T & 7,747 & 11,963 \\
Zinc & M/T & 12,131 & 17,658 \\
Lead & M/T & 382 & 1,407 \\
Aluminium & M/T & 708 & 1,235 \\
Tin & M/T & 992 & 252 \\
Ferro-silicon & M/T & 2,123 & 3,831 \\
Platinum & T/Oz & 1,551 & 1,604 \\
Cold rolled steel & M/T & — & 3,998 \\
Stainless steel & M/T & — & 691 \\
Camphor & M/T & 149 & 113 \\
Sodium sulphate & M/T & 2,230 & 3,465 \\
Sulphate of potash & M/T & 13 & 1,057 \\
Chilean nitrate & M/T & 9,493 & 31,446 \\
Hydro sulphate of soda & M/T & 210 & 219 \\
Muriate of potash & M/T & 36,710 & 48,338 \\
Rangolite "C" & M/T & 106 & 328 \\
Polyurethane & M/T & 10 & 305 \\
Caustic soda & M/T & 47,738 & 24,245 \\
Soda ash & M/T & 69,114 & 7,545 \\
Ammonium sulphate & M/T & 238,914 & 292,976 \\
Rayon grade C soda & M/T & — & 5,000 \\
Sulphur & M/T & — & 52 \\
PVC powder & M/T & — & 207 \\
Phenol & Kilos & — & 400 \\
Mercury & M/T & — & 51 \\
Cedine phosphate & Kilos & — & 500 \\
Betal nuts & M/T & — & 1,050 \\
Spices & Cwt & — & 21,144 \\
Cinema carbons & — & — Sundry items & — Sundry items \\
Cotton yarn & lb & 68,385 & 153,341 \\
Raw silk and spun silk & — & — Sundry items & — Sundry items \\
\hline
\end{tabular}
\end{table}

\textsuperscript{12} During 1961-1962, STC exported cotton yarn worth Rs 11.35 million to Indonesia; shellac (worth Rs 0.4 million) and chrome concentrate (9380 tons) to North Korea.
number of new Indian products such as bauxite, stone chips, handicrafts, etc., to the new markets. The overall export performance of the Corporation is reflected in the fact that the total value of exports handled by it increased from Rs 57.4 million ($12.1 million) in 1956-1957 to Rs 230.4 million ($48.4 million) in 1959-1960 and to Rs 234.8 million ($49.3 million) in 1960-1961. During the year 1961-1962, the value of exports handled by the Corporation registered some decline owing mainly to restrictions imposed by the Government on certain exports to meet growing domestic consumption, and amounted to Rs 347.7 million ($73 million). In the field of imports also, the trade handled by the Corporation increased from Rs 36.4 million ($7.6 million) in 1956-1957 to Rs 234.8 million ($49.3 million) in 1960-1961 and to Rs 368.5 million ($77.4 million) in 1961-1962. The import activities of the Corporation, as mentioned earlier, are guided by considerations of bulk purchasing of goods to enable it to procure essential items at cheaper prices and of stabilization of internal prices of certain commodities of a highly speculative nature. The items being imported by the Corporation include machinery and machine tools, ball-bearings, non-ferrous metals, electric equipment, special steel products, etc. Of the total iron exports handled by the Corporation during 1961-1962, about three-fifths were directed to eastern European countries.

135. The State Trading Corporation has concluded a number of long-term agreements with some of the eastern European countries, Yugoslavia and Japan for delivery of large quantities of iron ore and other commodities with imports of capital goods, foodstuffs and raw materials with the centrally-planned economies as well as with commercial firms in western European and African countries.14

STC's role in internal distribution of essential commodities

136. In addition to the direct trading operations with foreign countries, the State Trading Corporation is acting as the agent of the Government of India for handling the distribution of cement in the country. As the demand for its is far in excess of what is available, the main function of the Corporation is to ensure rationalization of its movement and to effect equitable distribution of its supply at a uniform f.o.r. destination price throughout the country.

Business methods of STC

137. The nature of the Corporation's contribution and the extent and magnitude of its participation have been largely conditioned by the needs and requirements of each trade transaction. Consequently, in the conduct of its business, the Corporation has functioned in a variety of ways and has adopted business methods and techniques suitable to the achievement of its principal aims. Direct trading, as will be noticed from the preceding discussion, has been restricted to only some transactions; to some extent the Corporation has procured, stocked and shipped the ores sold to foreign buyers; and soda ash and caustic soda have been bought and imported by the Corporation for sale through its selling agents. In a number of cases, while contracts for purchase or sale have been concluded by the Corporation, deliveries of consignments on board the ship for export and the handling and distribution of goods on import have been looked after by the Corporation's business associates. The Corporation has also functioned as a servicing agent bringing together buyers and sellers, assisting them in implementing business contracts and using its good offices to settle disputes amicably. Government departments and industrial entrepreneurs have been assisted to procure essential plants and machinery on commercial terms, and producers of shoes, handicrafts and woollen fabrics have been enabled to organize production for export.16

The Corporation has been of particular help to individual traders in their negotiations with the State trading organizations or monopolies in foreign countries.


countries. In certain cases, it has had to undertake additional functions such as financing the building of roads in the mining areas to facilitate the export of ores.16

**Offices abroad**

138. In order to watch and supervise the implementation of its business contracts and to help Indian exporters to expand their business abroad, the Corporation has opened an office in western Germany. It is considering the question of opening similar offices in Prague and Tokyo also.

**Financial results**

139. While its functions and objectives are intimately interrelated with the Government’s foreign trade policies, and it has been undertaking several activities which are commercially not profitable, the Corporation is essentially a self-financing organization and can expand its operations only on that basis. The annual balance sheets of the Corporation issued so far reveal that it has been able to achieve this objective with considerable success and that its profits have increased from year to year; they amounted to Rs 20.20 million ($4.24 million) in 1961-1962 as against Rs 3.26 million ($0.68 million) in 1960-1961. After paying dividends to the Government at rates determined by the Board of Directors, the profits of the Corporation are appropriated towards building, insurance and general reserves, etc., and for meeting losses arising from price fluctuations.

**INDONESIA**

140. The genesis of State trading in Indonesia has to be traced to the desire on the part of its Government and people to break away from the legacy of colonialism, and the rationale behind the policy is provided by Article 33 of the Constitution of 1945 which laid the basis of a socialist economy. Formerly, Indonesia’s external trade was in the hands of big Dutch concerns. Import trade was dominated by five of those concerns. Agricultural exports which had developed as a result of estate agriculture found their way to the produce exchanges in Amsterdam. Even the domestic retail trade was carried out by non-nationals.

141. The Dutch concerns were nationalized and State trading concerns were founded. The most important of these State trading agencies include (1) the Food Council with its two subsidiary agencies, namely, the Food Foundation and the Rice Purchasing Agency which have the responsibility of stabilizing the supply and price of paddy, and (2) the General Management Board of State Trading Enterprises, including nine State trading firms under it, which carries out the bulk of the trade on important imports and exports.

142. Nationalization was undertaken in order to speed up the realization of the Government’s economic programme as outlined in the political manifesto of 17 August 1959 providing, among other things, that the apparatus for production and distribution be recognized and aimed at the implementation of Article 33 of the Constitution.

143. Under this article, the companies that shall be established, apart from co-operatives, shall be any of the following categories:

1. Full State enterprises which exploit the natural resources in land and water, water power, forestry, etc.

2. Full State enterprises which manage production vital for the State or for the life of the people.

3. State enterprises which operate all other projects vital according to the policy of the Government.

4. Other enterprises not falling under Article 33, clauses (2) and (3), which may be private or mixed (Government plus private) enterprises. But, companies should be ‘retooled’ to bring them into line with this Article reflecting the Indonesian socialist economy.”

144. Under the existing statute, every State trading corporation is one of the production units which (a) supply services, (b) serve the public interest, and (c) earn an income with the objective of contributing to the building up of a national economy in accordance with the requirements of a guided economy, while taking into account the needs of the people, labour welfare and stability.

**State trading agencies**

145. Accordingly, the Government established on 24 January 1958 the Food Council, “Dewan Bahan Makanan” (BAMA), charged with the responsibility for (1) formulating the Government’s policy concerning food and (2) preparing a programme for the production, importation and distribution of food, including the determination of food prices. Under the Food Council are two operating agencies. One is the Food Foundation, “Jajasan Urusan Bahan Makanan” (JUBM), whose predecessor had been established as early as 1939. This agency now confines its activities to rice importation. In 1961, it imported over a million tons of rice principally from Burma, Thailand, South Viet-Nam and the United States. In that year the value (Rupiahs 3000 million) of rice importation alone represented 9 per cent of total imports, although the average from 1959 to 1961 was 14 per cent of total imports. The other enterprise is the Rice Purchasing Agency, “Jajasan Pembelian Padi” (JBPP), whose functions are limited to the internal purchase and distribution of paddy, including its milling.

146. The local purchase of paddy has been improved through the system of advance payment, but procurement has been impeded mainly by the disparity in the purchase price fixed by the Government and free market prices. To minimize hoarding, purchase has been made in kind (textile) as an inducement for rice farmers to sell. The Government has been extending credit to the Rice Purchasing Agency for the purchase of paddy.

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147. Other Government agencies that handle the trade in copra and sugar are, respectively, the Central Copra Co-operative and the Netherlands Indonesia Association. The latter occupies a monopoly position in the purchase of estate-produced sugar and is the only seller of sugar within Indonesia or abroad.

148. Foreign trade in essential goods, except paddy and sugar, is handled by nine State trading firms under the supervision of the General Management Board of State Trading Enterprises, "Badan Pimpinan Umum Perusahaan Dagang Negara". Into the nine State enterprises were consolidated thirty enterprises which had existed before. Even the private firms engaged in foreign trade were reduced from 4000 to about 1500 as a means of increasing the efficiency of the commercial organization. Co-operatives promoted by the Government are encouraged to engage in import and export.

149. BPU was established pursuant to Government Legislation No. 65 promulgated on 29 March 1961. It is entrusted with the task of general regulation and administration of the various State trading agencies under it. The powers of management are vested in a President-Director and four managers each responsible for his respective field.

150. Each of the trading corporations has a board of directors of four or five members, including the President-Director who, in turn, is responsible to the President-Director of the General Management Board of State Trading Enterprises. The total paid-up capital of the nine corporations is 700 million Indonesian rupiahs. Six of the trading corporations, namely PN Tri Bhakti, PN Djaia Bhakti, PN Aneka Bhakti, PN Budi Bhakti, PN Fadjar Bhakti and PN Marga Bhakti, deal with both imports and exports. The other three, namely PN Tulus Bhakti, PN Sinar Bhakti and PN Sedjati Bhakti, concern themselves only with imports.

151. Each of the six enterprises engaged in import and export trade is charged with the importation and distribution of capital goods and raw materials for purposes of industry and construction, procurement through imports and local purchases and distribution of general commercial commodities, including mainly the basic needs of the people, the exportation of agricultural, mineral and handicraft products, assistance in the development of co-operatives and the fostering of closer relations with autonomous regional trade enterprises and private enterprises. Most of them deal in the same types of goods and do not appear to specialize in trade in specific types of goods.

152. The six import-export trading agencies operate with two hundred branch offices throughout Indonesia and twenty overseas branches including Hamburg, Düsseldorf, London, Belgrade, New York, Tokyo, Osaka, Hong Kong, Singapore, Bangkok and Rangoon.

153. In the field of import, the main responsibility of the corporations is to supply essential goods, viz., raw cotton, weaving yarn, textiles, dyestuffs, sewing threads, paper, cement, iron, iron and steel bars, tin plate, jute, flour, paper, cloves, fertilizers, as well as other raw materials and machinery for industries, and to carry out government purchases. The import of essential goods is exclusively handled by the state trading corporations. General merchandise, which private firms are authorized to import, is also imported but the practice has been irregular due to foreign exchange difficulties.

154. The distribution of pharmaceuticals is handled by seven new firms other than the trading organizations mentioned above.

155. With respect to exports, the main task of those six trading corporations is to promote Indonesia exports and to eliminate speculative domestic trade on export produce to stabilize supply and prices for the international market.

156. The State trading corporations will endeavour to sell Indonesian produce to "all countries over the world, to western as well as to socialistic blocs and to non-committed countries in accordance with the Indonesian foreign policy which is a free and active one". The corporations obtain credit facilities from State banks to increase the export of Indonesian produce. Exports are also given priority in the use of shipping facilities to transport the produce both to the main ports and to their destinations abroad. In 1961 the requirement for the opening of letters of credit for the exports carried out by State trading corporations to, or through, their overseas branches was dispensed with.

157. Private exporters have been given some incentives as a means of export promotion. Export prices are fixed in advance to provide them with more certainty and to enable them to compete abroad. They are also allowed to use the proceeds obtained from overprices to import certain goods or use them for their private interest. They are members of the Indonesian Exporters' Association, which is composed of State and private enterprises (including foreign firms) engaged in export trade, and which assists the Government in the formulation of export policy, in drawing up standard contracts for the sale of Indonesian exports and in issuing quality certificates for them.

158. The State corporations export mainly non-estate produce which comprises approximately 55 per cent of total Indonesian export of agricultural produce. In 1961, it was decreed that plantation firms, both domestic and foreign, should sell to State trading organizations all the produce which they do not themselves export. Among the exports promoted by the state corporations are rubber, copra, copra chips and cakes, palm kernel and oil, coffee, gun copal, tapioca flour, spices, aetheric oil, and rattan.

Role of State trading

159. Based on a review of State trading made by Lt. Col. Soeparto, President-Director of BPUPDN,18

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17 See A New Era in Indonesian Export, brochure published by Central Management Board of State Trading Corporations, Jakarta, September 1961.
State trading with respect to imports has been following an upward trend until 1961. The nine State trading bodies had a turnover of Rp 20,000 million in 1960 compared with only Rp 6 million in 1957 and the value for 1961 was estimated to be Rp 25,000 million. Accordingly, the profits (including tax) realized in 1960 amounted to Rp 1042 or around 650 per cent of those made in 1957 when the Dutch import firms were in operation. The profit (including tax) for 1961 was placed at Rp 1300 million or 812 per cent of that of 1957. It was noted that the domestic increase of the absolute value of trade handled by State trading with respect to imports has been followed by an upward trend until 1961. The nine State trading bodies had a turnover of Rp 20,000 million in 1960 compared with only Rp 6 million in 1957 and the value for 1961 was estimated to be Rp 25,000 million. Accordingly, the profits (including tax) realized in 1960 amounted to Rp 1042 or around 650 per cent of those made in 1957 when the Dutch import firms were in operation. The profit (including tax) for 1961 was placed at Rp 1300 million or 812 per cent of that of 1957. It was noted that the domestic increase of the absolute value of trade handled by State enterprises was due partly to price increases and partly to the fact that 66 per cent of total imports was entrusted to them since the Dutch firms were no longer authorized to operate. Tax payments increased from Rp 62 million in 1957 to Rp 350 million in 1960.

160. With respect to exports, there was a temporary drop in the value of exports handled following the nationalization of export trade from Rp 1050 million (including the trade handled by State trading corporations, "Baru" and "Usindo") in 1957 to Rp 277 million in 1959 (the value of export during this year was Rp 10,613 million). This decline was attributed to several causes including the closure of the branches of the Dutch enterprises abroad, reduction in the number of middlemen, transport difficulties and other causes. The value of total exports rose to an average of more than Rp 36,000 million for 1960 and 1961. With the increased activity of State trading enterprises in the export trade and their access to Government credits and other prerogatives, they now dominate trade in the so-called “strong” foreign exchange earners, including rubber, copra, pepper, palm oil and sisal. It is estimated that altogether they account for 45 per cent of the total export trade.

161. As an instrument for economic development, state trading has contributed to the emergence of new industries in Indonesia with the policy of giving priority in the use of foreign exchange to capital and raw material imports and the acquisition of capital equipment through long-term contracts with centrally planned economies.

JAPAN

162. In Japan, two types of State trading enterprise are in operation, e.g., the food control agency and the Government monopoly.

(a) Food Agency

163. Under the Food Control Law of 1942, the (Government) Food Agency was established to regulate the marketing of rice, barley and wheat in order to ensure adequate supplies of food to the people at reasonable prices and to achieve a measure of stability for the national economy. All rice producers are obliged to sell their production, except for their consumption requirements, to the Government. In the case of barley and wheat, growers are not obliged to sell to the Food Agency but, at their request, the Agency purchases their production in unlimited amounts. The rice, barley and wheat thus purchased by the Agency is distributed to consumers at controlled prices.

164. The Food Agency does not directly engage in the import and export of rice, barley and wheat. The business is done under Government permit by private traders registered at the Food Agency. All the imported rice, barley and wheat must be sold to the Government.

165. The Agency determines the annual import requirements for rice, barley and wheat, taking into account the domestic supply and demand and the required stockpile at the end of the year. The Agency’s purchase prices for locally-grown produce are so determined as to ensure a fair return to the growers, taking into account production costs, current commodity prices and other economic factors. The re-sale prices are determined with a view to ensuring supplies to the people at reasonable prices, making allowances for differences in quality between imported and domestic produce.

166. Profits derived from imported rice, wheat and barley are utilized to make up for losses arising from other food control measures under the Food Control Special Account. As a whole, this Special Account shows a deficit which is covered by a transfer from the General Account.

(b) Japan Monopoly Corporation

167. The capital of the Japan Monopoly Corporation is entirely subscribed by the Japanese Government. The Corporation holds the monopoly for tobacco and salt and deals exclusively in the purchase, sale, export and import of leaf tobacco, manufactured tobacco (including cigarette paper) and salt. The monopoly on tobacco is maintained for the purpose of securing fiscal revenue; that on salt, for ensuring a steady supply of salt to consumers.

(1) Tobacco

168. Tobacco may be grown only by the Corporation or by persons authorized by it. The Corporation purchases all the leaf tobacco domestically produced and is the sole manufacturer of tobacco products. The Corporation or a person authorized by it has the exclusive right to manufacture cigarette paper. All the cigarette paper produced in Japan is purchased by the Corporation.

169. The import and export of leaf tobacco, manufactured tobacco and cigarette paper can be done only by the Corporation or a person authorized by the Corporation. Imported leaf tobacco and manufactured tobacco are exempted from customs duty. In the fiscal year 1961 (April-March), Japan imported 16,312,000 kg of leaf tobacco worth $US 31,747,000 and 785 million pieces of cigarettes valued at $US 3,246,000. During the same period, Japan exported 8,350,000 kg worth $US 6,653,000 of leaf tobacco and 230 million cigarettes worth $US 1,342,000.

170. The purchase price of domestic leaf tobacco is fixed annually by the Corporation, with the advice

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of the Tobacco Cultivation Council and taking into account the cost of production, adequate profit for growers, current commodity prices, and other economic factors. Imported leaf tobacco is purchased at the market price.

171. The retail price of locally manufactured tobacco is fixed by the Corporation with the approval of the Minister of Finance. Monopoly profits (including tobacco consumption tax) and handling charges for tobacco retailers are added to the cost of production. The retail prices of imported manufactured tobacco are fixed by the Corporation, taking into account the percentage of the monopoly profits (including tobacco consumption tax) to be gained from the sale of domestically manufactured tobacco and the handling expenses of tobacco retailers.

172. Imports of manufactured tobacco by an individual for his personal use are subject to approval by the Corporation and to a duty of 355 per cent (200 per cent for cigars) on the amount in excess of a certain quantity.

(2) Salt

173. Only persons authorized by the Corporation can manufacture salt and, in principle, the Corporation purchases all salt thus manufactured. The purchase price is determined by the Corporation on the basis of production cost and on the advice of the Council for Determination of the Purchase Price of Salt.

174. Salt is imported by the Corporation or a person authorized by it. Salt imports are exempted from customs duty. Salt for common use (as a foodstuff) is imported directly by the Corporation from overseas producers. Salt for industrial uses (soda industries) may be imported only by the users authorized by the Corporation. In the fiscal year 1961, imports of salt totalled 2,555,000 tons valued at $US 25,673,000. No salt is exported.

175. The sale price of salt is fixed by the Corporation subject to approval of the Minister of Finance.

(c) Ministry of International Trade and Industry

176. The Ministry of International Trade and Industry holds a monopoly for the manufacture, sale and import of alcohol. The alcohol monopoly has been maintained since 1937 with the aim of ensuring steady supply of alcohol to consume, regulating production and sales of alcohol for securing fiscal revenue, and promoting the agricultural economy through the purchase of sweet potatoes as raw material for alcohol.

177. The Government purchases all alcohol domestically produced in State-operated and private factories. The purchase price takes into account the cost of production and adequate profits for the manufacturers.

178. Only the Government or persons authorized by it can import alcohol. No particular restrictions apply to its export. Alcohol is sold to consumers at a reasonable price.

179. There are two Government agencies engaged in trading activities in Laos. Both agencies started to operate in 1962; hence their scale of operation is still very limited.

180. The first Government trading body is the National Import and Export Office (ONIE) which has been established under the Department of National Economy as a separate legal entity. It has financial and administrative autonomy with a budget of its own and its funds are derived from the Government budget.

181. The objective of ONIE is to ensure regular supplies of imported goods, especially essential items, so that they may be available at reasonable prices throughout Laos. Its activities include importation, allocation of goods to various parts of the country, and distribution among Government organizations, co-operative stores, private retailers and other retail outlets.

182. ONIE is also engaged in export business for the purpose of encouraging agricultural and industrial production in Laos. It aims at making only small profits in business just to cover its over-all costs of operation.

183. In 1962, it imported the following goods amounting to a total value of $392,605: rice (1650 tons), salted meat (24,000 jars), cement (1500 tons), corrugated iron (60 tons), fibro-cement (100,000 sheets) and iron rods (100 tons).

184. The other Government trading agency is the Civil Service Supply Store which was established in 1959 under the Department of Finance, but which began to function only in March 1962. Its main objective is to help civil servants in obtaining, through imports or by other means, essential consumer goods at reasonable prices and to prevent speculation which might create a rise in the prices of essential commodities. The goods dealt with by the Civil Service Supply Store include milk, salted meat, soap, rice and sugar. It obtained its working capital from the Government in the form of loans bearing 4 per cent interest per annum.

MALAYSIA

185. Malaya has no State trading in imports or exports. Its State trading activities are largely of domestic significance only and are directed towards the maintenance and improvement of agricultural production, especially of rubber and rice.

186. The Government of Malaya since 1953 has given replanting subsidies to estates at the rate of $M 400 per acre paid in cash and to small holdings at $M 600 per acre paid partly in kind and partly in cash. For the mechanization of farm operations, tractors and implements are made available at subsidized rents or purchasing prices. The distribution of fertilizer for paddy is subsidized, the amount of the subsidy corresponding to 50 per cent of the price.

The information contained in this section relates to the Federation of Malaya and is based on GATT COM. 11/24 dated 6 October 1959; GATT COM. 11/29 dated 18 November 1959. There do not appear to have been any major changes in Malayan State trading policy since then.
187. The main price-policy measures in Malaya with some semblance of State trading concern rice. Difficulties in securing rice during the Second World War and in the immediate post-war years led to Government measures of assistance to make food available to cultivators for increasing rice production. Formerly there was large-scale exploitation of the peasant farmers by the local village shopkeeper, who extended credit to them for repayment in rice after the rice harvest. The Government's solution to this problem has been the adoption of a guaranteed minimum price scheme. Immediately before each rice harvest, the Government declares the price it is prepared to pay as a residual buyer to all sellers of paddy; this price is based on the import price of rice. The purpose of the minimum price is not so much to support the incomes of paddy producers at any given level or to act as an incentive, but to protect paddy cultivators against sudden drops in paddy prices. In fact the Government has fixed its guaranteed minimum prices somewhat below the level at which it has anticipated the local rice market would settle. As the local price of paddy depends largely on prices of imported rice, the level of guaranteed minimum price must take the latter into account.

188. The Government purchases paddy through its own mills which are very few in number and through licensed private mills. It also buys rice from the same mills at prices fixed in relation to the guaranteed minimum prices of paddy. No grower is compelled to sell his crop to the Government, since the local shopkeeper is now obliged to pay at least the guaranteed minimum price in order to secure supplies of rice. Because of the difficulties of holding stocks of rice in a tropical climate, the stockpile has to be rotated and the Government has solved the problem by enforcing a regulation that imports of rice are conditional on the purchase of a certain quantity from Government stocks (the ratio at present is 2:1 imported stock). The Government has built up through the process a national stockpile of rice.

189. There is no special purchasing organization for the distribution of rice to the consumer. The supply section of the Trade Division of the Ministry of Agriculture, which was originally created for the purpose of administering rationing schemes and price control, now only administers and controls the collection of rice from the farmers, its transport to Government mills and sales to importers. Importers and local shopkeepers are responsible for supplying rice to the Malayan consumer and there is no Government control of the price of rice to the consumer.

190. The cost of Government trading activities has not been announced, but stocks have been planned in such a way that they do not exceed a certain level and the Supplies Department of the Ministry of Agriculture, Trade Division, has generally operated without incurring losses.

NEPAL

191. In Nepal the need for establishing a State trading organization was not realized until recently. An organized private sector with specialization in trade and commerce is lacking, and expansion and diversification of export trade is necessary. Nepal's trade, in view of the physical barriers, is largely limited to India. The instruction of State trading is designed, in these circumstances, to improve the internal marketing and to diversify both its export and import trade.

192. Nepal, breaking its age-old isolation, has recently established diplomatic and economic relations with various countries which afford the prospect of expanding Nepal's trade relations with them. It has entered into economic aid and trade agreements with a number of countries, including India, the People's Republic of China, the United States of America, the Soviet Union and Pakistan. These countries are helping Nepal's all-round economic development.

193. Under the aid agreements with the Soviet Union and mainland China, Nepal has been receiving a wide range of consumer goods from each of those countries. Since there was no institution either in the private sector or in the public sector to handle the goods imported from these centrally-planned countries, the need for a State trading organization was felt.

194. As a result, in May 1962 the National Trading Company Limited was incorporated under the Nepal Company Act 2007 BS (1950-51 AD) with an authorized capital of NRs 1.0 million, of which one-half has been paid up. Though incorporated as a private limited company, it operates on a no-profit, no-loss basis.

195. A Board of Directors, consisting of five members including the Minister of Commerce and Industry as the Chairman, conducts the affairs of the Company. The Company at present has four sections, namely, Finance, Procurement, Administration and Research. The institution has established five branches within the country.

196. The main functions of the Company are to handle the bulk of commodities imported by way of grants and loans from the Soviet Union and mainland China. Recently the Company has also begun to handle the goods supplied on a quota basis by India to Nepal, namely cement and iron and steel. Goods imported from the Soviet Union comprise machines, bicycles, watches, motor cycles, jeep-type cars, sugar, tinned milk, etc. Goods received under Chinese aid are textiles, ready-made garments, silk, newsprint, cotton yarn, chemicals, galvanized wire, sheets, electric motors, radios, fountain-pens, casting machines, paints and varnishes. These goods are sold to the public by the Company and the sale proceeds are used to meet the local costs of the projects being constructed with aid from the Soviet Union and mainland China.

197. The Soviet projects include a cigarette factory with a production capacity of 2000 million cigarettes a year; a sugar mill with an annual capacity of 14,000 tons; a hydro-electric power station with a capacity of 2400 kW and a 50-bed hospital. These projects are being constructed with 30 million roubles supplied as aid by the Soviet Union.
198. Mainland China's aid covers a cement factory with an annual capacity of 50,000 tons, a paper factory with a daily capacity of 20 tons, and a small tannery and shoe factory. These projects are scheduled for completion by 1966.

199. Hitherto, the National Trading Company has been dealing with imports only, particularly under the short-term contracts as the agent of the Nepal Government's Department of Commerce. However, private traders are allowed to export and import in competition with the Company. During the first year of its operation, the Company handled 2 per cent of the country's total imports, the latter being estimated at NRs 500 million.

200. The Government of Nepal made an arrangement in February 1963 to import 1000 barrels (44,000 gallons) of petroleum from the Soviet Union to tide over a temporary shortage of petroleum; the National Trading Company is handling this import.

201. As Nepal's trade with other countries expands as a result of trade and aid arrangements, it is believed that the National Trading Company will play an increasingly important role in the conduct of foreign trade.

**NEW ZEALAND**

202. In New Zealand, State trading enterprises, or enterprises having exclusive or special trade privileges, cover the following products: (a) wheat and flour, (b) citrus fruits, bananas, pineapples and grapes, (c) apples and pears, (d) honey, (e) eggs, and (f) dairy products.

(a) **Wheat Committee**

203. Under the provisions of the Board of Trade Regulations 1943, a Wheat Committee was established in order to encourage local production of wheat, to ensure adequate imports to cover domestic requirements and to administer the consumer subsidy paid on imported and locally-produced wheat and flour.

204. The Committee consists of representatives of flour millers, wheat growers, bakers and the Department of Industries and Commerce. The Minister of Industries and Commerce is the Chairman of the Committee and his nominee is the Deputy Chairman.

205. Through the grain merchants, the Committee purchases all New Zealand wheat from the farmers. The Committee also imports wheat and flour and allocates supplies to individual millers and flour users. The prices payable to domestic producers of wheat have been fixed for the past five seasons at 13s. 6d. per bushel. The price of imported wheat is determined by commercial negotiation. The prices of locally-produced wheat and flour are controlled and the prices of both wheat and flour are maintained at the same level regardless of source. Consumer subsidies are payable on flour and bread.

(b) **Citrus Marketing Authority and Fruit Distributors Ltd.**

206. The Citrus Marketing Authority was created under the Citrus Marketing Regulations 1953 in order to ensure the orderly marketing of citrus fruits, bananas, pineapples and grapes in New Zealand and to give a measure of stability to growers in New Zealand's island territories and the independent State of Western Samoa. The Authority consists of six members, five of whom represent the producers and are nominated by the New Zealand Citrus Council, and one of whom is appointed by the Minister of Agriculture.

207. The Authority controls the assembly, distribution and marketing of locally grown lemons and sweet oranges. It sells the fruit at agreed prices to Fruit Distributors Ltd., a registered company owned by trade interests and established by agreement with the Government. The Authority also processes unmarketable, but otherwise sound, fruit into by-products such as fruit juice and lemon peel.

208. The Fruit Distributors Ltd. has the sole right of importing and marketing citrus fruits, bananas, pineapples and grapes. The retail prices of bananas and imported oranges are controlled.

(c) **Apple and Pear Marketing Board**

209. The Apple and Pear Marketing Board was established by the Apple and Pear Marketing Act 1948 to administer the guaranteed price scheme introduced by the Government and to ensure the orderly marketing of apples and pears in the domestic market and for export.

210. The Board consists of five members, of which two are nominated by the Minister of Agriculture, two by the New Zealand Fruitgrowers' Federation and an independent Chairman selected by the Minister, after consultation with the Fruitgrowers' Federation.

211. The Board administers a guaranteed price scheme based on the cost of production of apples and pears. The Minister of Agriculture fixes the guaranteed price, taking the recommendations of the Board into account. The Board determines the wholesale prices at which apples and pears are sold in New Zealand. Any excess of supply above domestic requirements is exported solely by the Board. Export prices are influenced by market forces and are usually higher than domestic prices.

(d) **Honey Marketing Authority**

212. The Honey Marketing Authority was established under the Primary Products Marketing Act 1953 to promote the orderly marketing of honey and to administer the fund accruing from a levy of 1d per pound on all honey sold in New Zealand for the benefit of the industry in general. The Authority consists of six members, of which four are elected by the beekeepers, one appointed by the National Beekeepers' Association, Inc., and one appointed by the Government.

213. The Authority receives honey voluntarily offered by beekeepers, usually the surplus which they do not wish, or are unable, to sell locally. The honey thus received is packed or blended and sold in New Zealand and overseas.

214. The greater part of locally-produced honey is sold by producers through ordinary commercial
channels. Exports are made by the Authority in the interest of the industry as a whole. Export prices are determined in the usual commercial manner.

(e) Egg Marketing Authority

215. The Egg Marketing Authority was established in 1953 to ensure adequate supply and equitable distribution of eggs in the interest of producers and consumers. The Authority consists of four producer members of the New Zealand Poultry Board and three Government representatives.

216. The Authority operates principally through licensed distributors (egg floors) who receive and re-sell eggs on commission, or, as directed by the Authority, manufacture egg pulp for the use of bakers and pastry-cooks. A subsidy is paid by the Government in respect of eggs received at the egg floors. Egg floors are privately or co-operatively owned.

217. Producers may sell eggs direct to consumers, but such eggs may not be re-sold in marketing areas served by egg floors. In these areas, producers are not permitted to sell to retailers. About 50 per cent of locally-produced eggs are handled by the egg floors; the balance is consumed or disposed of directly by the producers.

218. Prices of eggs are subject to a ceiling fixed by the Price Tribunal on the recommendation of the Egg Marketing Authority. The price of egg pulp is also subject to control. The Authority arranges for the import of egg pulp when local supplies are inadequate.

(f) Dairy Production and Marketing Board

219. The Dairy Production and Marketing Board was established in 1961 by an Act which combined the New Zealand Dairy Board and the New Zealand Dairy Products Marketing Commission. It is composed of eleven members elected by producers and two appointed by the Government. The Chairman is elected from among the thirteen members.

220. The Board is the only authorized exporter of dairy produce. The small import trade is handled by private traders. The Board acquires and provides for the handling of the New Zealand export production, negotiates with the overseas buyers and regulates the marketing of butter and cheese in the domestic market. It owns the Empire Dairies Limited and the Milk Products (N.Z.) Limited through which all New Zealand butter, cheese and milk powder sold in the United Kingdom are distributed.

221. The export prices of New Zealand dairy produce are the result of normal commercial negotiations between the Board and the overseas buyers. The Board does not enter into long-term selling contracts.

222. The prices paid to New Zealand producers for butter and cheese are fixed by the Dairy Products Authority, which consists of three members nominated by the Board and of three Government representatives and one Chairman appointed with the approval of the Board. The domestic prices for butter and cheese and other dairy products are maintained at levels which are the local equivalent of the export prices, after allowing for differences in relative selling costs. Butter is subject to a consumer subsidy paid by the Government. Its retail price is therefore below the equivalent overseas price.

Pakistán

223. While Pakistan's export trade rests entirely in the hands of private enterprise, a substantial part of its imports are on Government account (see Table 11). The high ratio of Government's share in Pakistan's import trade is accounted for, on the one hand, by large scale imports of foodgrains (wheat and rice), fertilizers and coal of which the Government has an import monopoly and, on the other, by direct governmental outlays on defence and development. Thus the scope of State trading in Pakistan extends not only to items of which the Government is the end-user but also to items meant for commercial sale.

State trading in items for commercial sale

224. State trading in foodgrains (wheat and rice) and sugar is not a new element in Pakistan's trading policies. It was inherited from the Government of undivided India in 1947 and has since been continued chiefly as a measure to meet the situation arising from the scarcity of these commodities, in which Pakistan has been deficient since its inception, and to ensure fair distribution.

225. Until the middle of 1960, the scope of Government control of trading in wheat and rice extended not only to imports and indigenous procurement but also to distribution and prices. The entire stocks of indigenous produce were procured by the Government and augmented by importation both under foreign aid and against Pakistan's own foreign exchange resources. The prices at which the Government

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<td>3 109.1</td>
<td>850.1</td>
<td>27.3</td>
</tr>
</tbody>
</table>


*The figures are exclusive of imports on Government account which are included under imports on private account.
sold the foodgrains were in some years below cost and entailed losses which were met by subsidies.

226. Due to the improvement in indigenous production and to the larger amounts available under the United States Expanded PL 480 Programme, the Government controls on prices and distribution of foodgrains were removed from the middle of 1960. The Government, however, still retains its title on imports. The imported stocks are being used partly to augment indigenous production and partly to build up stocks to meet any unforeseen shortage or increase in prices above a reasonable level. The Government issue price is based on the procurement price of indigenous foodgrains and the cost of imported grain with additions for the costs of transportation, milling, administration, etc.

227. Government controls on the import, distribution and prices of sugar were continued until 1961. Since then, the sugar trade has been partially decontrolled, and the Government's monopoly now extends only to the procurement of a part of indigenous production and its sale through private trade as prescribed. The local sugar industry is now free to sell its products in excess of the Government's requirements in the domestic market. In addition, private traders have been allowed to import sugar from abroad under the Export Bonus Scheme.

228. The partial control imposed by the Government on the sugar trade appears by and large to be motivated by revenue considerations as the prices at which the Government releases its stocks include a certain margin of profit. However, the Government's issue price continues to be substantially lower than the price at which sugar is being sold by the private traders in the free market. This disparity is accounted for by the fact that the supplies are still far short of the country's requirements and that the price of sugar imported under the Export Bonus Scheme is rather high.

229. An idea of the magnitude of State trading in foodgrains and sugar in Pakistan can be had from Tables 12 and 13 below, which give the annual imports of these commodities since 1952.

---

**Table 12**

<table>
<thead>
<tr>
<th>Year (July-June)</th>
<th>Wheat</th>
<th>Rice</th>
</tr>
</thead>
<tbody>
<tr>
<td>1952-1953</td>
<td>649 125</td>
<td>—</td>
</tr>
<tr>
<td>1953-1954</td>
<td>783 037</td>
<td>—</td>
</tr>
<tr>
<td>1954-1955</td>
<td>3 970</td>
<td>—</td>
</tr>
<tr>
<td>1955-1956</td>
<td>48 157</td>
<td>200</td>
</tr>
<tr>
<td>1956-1957</td>
<td>648 490</td>
<td>515 456</td>
</tr>
<tr>
<td>1957-1958</td>
<td>692 272</td>
<td>393 817</td>
</tr>
<tr>
<td>1958-1959 (15 months)</td>
<td>903 818</td>
<td>218 718</td>
</tr>
<tr>
<td>1959-1960</td>
<td>962 612</td>
<td>360 957</td>
</tr>
<tr>
<td>1960-1961</td>
<td>1 350 007</td>
<td>382 207</td>
</tr>
<tr>
<td>1961-1962</td>
<td>859 000</td>
<td>206 000</td>
</tr>
<tr>
<td>1962-1963 (up to March 1963)</td>
<td>877 523</td>
<td>177 999</td>
</tr>
</tbody>
</table>


---

**Table 13**

<table>
<thead>
<tr>
<th>Calendar year</th>
<th>Quantity (tons)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1952</td>
<td>128 770</td>
</tr>
<tr>
<td>1953</td>
<td>45 380</td>
</tr>
<tr>
<td>1954</td>
<td>93 980</td>
</tr>
<tr>
<td>1955</td>
<td>76 930</td>
</tr>
<tr>
<td>1956</td>
<td>86 090</td>
</tr>
<tr>
<td>1957</td>
<td>91 190</td>
</tr>
<tr>
<td>1958</td>
<td>52 550</td>
</tr>
<tr>
<td>1959</td>
<td>—</td>
</tr>
<tr>
<td>1960</td>
<td>—</td>
</tr>
<tr>
<td>1961</td>
<td>29 577</td>
</tr>
<tr>
<td>1962</td>
<td>114 158</td>
</tr>
<tr>
<td>1963 (January-March)</td>
<td>48 043</td>
</tr>
</tbody>
</table>

private importers on the basis of world-wide tenders. These public sector imports are arranged by the central and provincial Government agencies through import licences by the Governments agencies concerned. In the case of semi-Government organizations, the import licences are issued by the Chief Controller of Imports and Exports in the Ministry of Commerce.

233. All the central and provincial Government and semi-Government organizations plan their imports on an annual basis and get the necessary foreign exchange allocations from the central Government. In order to encourage private enterprises, the central Government has prohibited the import on Government account of such goods as are being or can be manufactured within the country or are being adequately licensed for import by the private traders. For example, iron and steel, chemicals, drugs and medicines, buses and tractors, which are being licensed for import by the private trade under OGL or on an automatic licensing basis, cannot be imported by the Government and semi-Government organizations from abroad.

THE PHILIPPINES

234. The Government policy on State trading in the Philippines is designed primarily (1) to promote the rehabilitation and development of some of the principal agricultural industries, (2) to stabilize the supply and price of essential consumer goods, and (3) to effect an orderly and efficient procurement at reasonable cost of the needs of the Government for operating supplies and equipment. In implementing this policy, provision has been made to afford opportunities to increase the share of Philippine nationals in business relative to the distributive sector of the economy.

STATE TRADING AGENCIES

235. To carry out these objectives, the following State trading agencies or corporations were created by special legislation or charter: the Rice and Corn Administration (for paddy and corn), the Abaca Corporation of the Philippines (for abaca), the Philippines Tobacco Administration (for native tobacco) and the Philippine Virginia Tobacco Administration (for Virginia tobacco). Price stabilization for the benefit of the consumers is the responsibility of the National Marketing Corporation with respect to essential consumer goods and of the Rice and Corn Administration with respect to rice and corn. The procurement and distribution of Government requirements is assigned to a regular Government agency, the Department of Public Services, particularly the Bureau of Supply. Two other State enterprises, the Philippine Sugar Institute and the Philippine Coconut Administration, were created to promote the development of the sugar and coconut industries respectively; but their activities do not include the purchase and sale, locally or abroad, of the products involved and so they will not be treated here as State trading agencies.

236. As semi-autonomous entities, all these corporations are governed by a board of directors, or equivalent body, whose members are appointed by the President of the Philippines. The board of directors is responsible for formulating the policies governing the operation of the enterprise, while the execution is left to a general manager who, in certain cases, is also the board chairman.

Rice and Corn Administration

237. The Rice and Corn Administration (RCA) was created by a special law, Republic Act No. 3542, approved on 14 June 1962, to replace the former National Rice and Corn Corporation which this law abolished.

238. The RCA agency is designed primarily to stabilize the supply and price of rice and corn and to provide incentives for production. Accordingly, the agency purchases the cereals directly from farmers at a price deemed to give them a fair return for their capital investment and labour. Priority is given in the purchase to small producers, i.e., those who produce, based on prior certification, up to 100 sacks of rice at 45 kilos per sack or corn grain at 56 kilos per sack. The RCA announces any changes in the floor price for paddy and the ceiling price for clean rice and corn at least two months before the regular planting seasons. The operation of the agency does not preclude private dealers from engaging in the rice and corn trade.

239. The RCA may import rice but only upon certification of the National Economic Council that the supply is inadequate in relation to the demand. Importation is made through agents who are elected following prescribed procedures. The agency is authorized to accumulate stock for supply and price stabilization purposes.

240. The trading operations of the agency are financed by its capital in the amount of P100 million appropriated by Congress. The RCA is not expected to make any profit; but, if any is made, it is added to its capital. The total rice production is around 90 million sacks of 45 kilos each; the volume of rice and corn that enters the trade channels is not known, but it is believed that the purchasing operation permitted by the agency's capital and by the loans it may acquire is adequate to influence the price of the staple food cereals.

Philippine Tobacco Administration

241. The promotion of the native tobacco industry which produces cigars and cigarettes is assigned by law (Republic Act No. 1135) to the Philippine Tobacco Administration (PTA). To promote the effective merchandising of leaf tobacco in the domestic and foreign markets, the PTA is empowered to buy, process, age and sell tobacco leaves as well as to stabilize and guarantee the prices of cured leaves according to grades and to expand and explore the domestic and foreign markets for leaf tobacco,
products and by-products. It can grant loans on reasonable terms to registered tobacco planters through agricultural credit co-operative associations, or any other financial institutions. The agency is also empowered to enter into and execute contracts of any kind which may be necessary or incidental to the attainment of its purposes, with any person, or firm, public or private corporation in the Philippines or abroad.

242. PTA does not seek to monopolize trade in indigenous tobacco. Although it established its own buying stations in tobacco growing provinces, it has encouraged private tobacco traders to engage in the trade, particularly in export.

243. To carry out the trading operations of the agency, the law created a special fund known as the "Tobacco Industry Promotion Fund" to be drawn from taxes derived from the tobacco industry amounting to a total of P10 million to be made available in annual appropriations of P2 million. Seventy per cent of the total amount is to be used for trading operations and the balance for research and administration. PTA invests whatever profits accrue from its operation to increase its capitalization.

Philippine Virginia Tobacco Administration

244. The Philippine Virginia Tobacco Administration (PVTA) has the same objectives with respect to the promotion and development of the local virginia tobacco industry as PTA has for the native tobacco industry.

245. The agency is authorized to buy locally-produced virginia leaf tobacco at support prices on the basis of classification of product. However, in practice, PVTA has adopted the management contract for its trading operations. Contractors procure, process and re-dry Virginia tobacco deliveries from authorized trading entities, pack the re-dried tobacco in hogsheads, and store and service the hogsheads in suitable warehouses or servicing areas for PVTA. In addition, the contractors guarantee the grade and classification of the tobacco sold and commit themselves to purchase 40 per cent of the stocks re-dried by them.

246. To facilitate trading, PVTA registered sellers in the form of farmers' co-operative marketing associations and their federations, planters' associations and corporations. In 1961 there were 187 of these entities.

247. The agency is not authorized to import. Importation is done by private traders subject to the condition that the latter buy from PVTA nine times as much locally grown aromatic leaf tobacco as they import. Exportation may be undertaken either directly or through the farmers' groups or corporations where majority stocks are owned by farmers' co-operatives.

248. The Central Bank of the Philippines is directed by law to extend to PVTA loans necessary to carry out its trading operations. In 1961 alone, some P54 million was released for the purpose.

249. The effect of government trading on the Virginia tobacco industry undertaken first through the Agricultural Credit and Co-operative Financing Administration and since 1960 by PVTA is such that, in less than 10 years, it has developed the industry to a point at which production meets not only the raw material needs of the aromatic cigarette industry but also the requirements for a new export trade. Abaca Corporation of the Philippines

250. The Abaca Corporation of the Philippines (ABACORP) was established to rehabilitate and develop the abaca industry whose production accounts for practically the entire world supply. The recovery of its pre-war level of production has been very slow, partly because of a serious plant disease and partly owing to lack of adequate resources to develop the industry.

251. To promote the production, processing, manufacture and merchandising of abaca, ABACORP is authorized to grant loans for production and processing and manufacture of abaca and to buy, sell, export, barter, and in any manner deal in abaca. However, its direct trading activities are to be undertaken not to supplant private efforts, which it in fact promotes, but to supplement them. Accordingly, it is empowered to invest its funds in the form of shares of stock in any private corporation or co-operatives founded to produce abaca fibre or to manufacture articles from it or its by-products. The agency is also authorized to enter into or execute contracts of any kind with any party, public or private, in the Philippines or abroad.

252. ABACORP was granted an authorized capital of P20 million, all of which is to be subscribed by the Government of the Republic of the Philippines. The payment of the subscription will be from the proceeds of public borrowing or loans from the Central Bank. In 1960-1961, the Corporation realized a profit of more than P2.8 million.

National Marketing Corporation

253. The National Marketing Corporation (NAMARCO) was organized under Republic Act No. 1345, approved in 17 June 1955, primarily to assist Filipinos engaged in retail business to acquire a greater share of the distributive trade. Towards this end, NAMARCO supplies Filipino retailers with merchantable goods at reasonably low cost to enable them to compete in the open market. It also serves as a price stabilizing agency for essential consumer goods, just as the Rice and Corn Administration performs this function for rice and corn.

254. NAMARCO is in a position to distribute merchantable goods to Filipino retailers so as to enable them to compete with foreigners, because the Corporation enjoys tax exemption including freedom from the payment of import duties and municipal sales taxes.

255. Goods are procured by NAMARCO from domestic or foreign sources through bidding. Its annual imports since 1957 to 1962 have averaged around $24 million. A 10 to 30 per cent mark-up is added successively to the procurement cost to set the wholesale and retail prices. When it finds that there
is a sufficient supply at reasonable prices of any locally-produced, processed or manufactured commodity, it does not import that commodity. The goods purchased are channeled to Filipino retailers through designated regional, provincial and city distributing agencies whose capitalization must be 100 per cent Filipino. The law requires that, in case the distributor is a partnership or corporation, consumer co-operative association, or farmers' co-operative marketing association, it must be duly registered with the appropriate office of the Government.

256. In order not to defeat the objectives of the law, goods handled by the agency bear the "NAMARCO" sign, and goods so marked are to be sold at a fixed price.

257. To finance its trading operations, NAMARCO was granted by law an authorized capital of P30 million payable in three equal annual installments. It also inherited some P6 million worth of assets from its predecessor, the Price Stabilization Corporation. It is authorized to secure loans from any credit institution for financing its trading operations. For financing its essential imports (canned milk, meat and fish) it was extended a credit line of P80 million by the Philippine National Bank. Profits realized, if any, become part of the surplus account.

**EFFECTS OF STATE TRADING**

258. Of the four State trading agencies established to develop important agricultural industries and to stabilize producers' prices, the Philippine Virginia Tobacco Administration has had the most marked effect. This may be attributed to the fact that it accounts for the bulk of the domestic trade in Virginia tobacco. However, the programme has generated a problem of over-production of Virginia leaf tobacco which is likely to cause losses to the Government, which is directed by law to purchase the product. At one time, unpaid obligations to the Central Bank accumulated to more than P100 million.

259. The Rice and Corn Administration may produce the same stimulating effect on the rice and corn industries if it increases its purchases at the current prices. The other agencies, namely, the Philippine Tobacco Administration and the Abaca Corporation of the Philippines, have operated on limited funds and played a subordinate role to private enterprise. In 1962, ABACORP handled only around 5 per cent of the export trade, the highest recorded over the years.

260. The National Marketing Corporation price stabilization programme, to the extent that it has reduced prices particularly on imported consumer goods, has had an income redistributing effect. The Government subsidy is equivalent to the taxes foregone in connexion with NAMARCO's operations.

**REPUBLIC OF VIET-NAM**

261. Government trading has not acquired significant proportions in South Viet-Nam. There is one agency, namely, the Central Purchasing Authority (CPA), which handles government imports, especially those received under United States aid. It operates through a system of competitive tenders.

262. On the export side there is no State trading. Government control is exercised over the export of rice through the Union of Rice Exporters, which has agreed to maintain adequate stocks for export after domestic needs have been provided for.

**THAILAND**

263. State trading does not have a significant role in Thailand's foreign trade, although there are altogether over 90 State enterprises and trading organizations in which the Government has a controlling interest. Such organizations include those engaged in public utilities, saving and commercial banking, shipping, new industrial ventures and monopolies established for fiscal purposes such as tobacco, lottery and liquor monopolies. Only the Government agencies and State trading bodies concerned with foreign trade in appreciable volume are described below.

264. Virtually all rice exports, which accounted for over one-third of total exports value of Thailand in 1959-1962, are handled by private traders, but the Department of Foreign Trade, Ministry of Economic Affairs, may intervene when buyers are Governments and wish to enter into sales contracts with the Government of Thailand. In such a case, the Department of Foreign Trade negotiates the terms of sales and commits itself as a seller to other Governments. The Government then designates various private exporters to make shipments under its name but it usually makes no profits. The advantage of involving the Thai Government in the transactions is that the buying Governments are doubly assured of the execution of the sales contracts, as the Thai Government may be obliged to reduce the export tax (rice premium) if the internal price, which moves freely according to market forces, rises and makes it difficult to export at a committed price. It should be noted that the Foreign Trade Department intervenes only in the exports of types of rice which do not find large international markets except in the countries where rice imports are a State monopoly. The volume of rice shipped under the Government contracts and its proportion to total rice exports are shown in the table below.

<table>
<thead>
<tr>
<th>Year</th>
<th>Quantity shipped under Government contracts</th>
<th>Total exports</th>
<th>Percentage share of Government contracts in total exports</th>
</tr>
</thead>
<tbody>
<tr>
<td>1960</td>
<td>325</td>
<td>1 192</td>
<td>27</td>
</tr>
<tr>
<td>1961</td>
<td>548</td>
<td>1 563</td>
<td>35</td>
</tr>
<tr>
<td>1962</td>
<td>411</td>
<td>1 277</td>
<td>32</td>
</tr>
<tr>
<td>1963 (Jan.-Sept.)</td>
<td>422</td>
<td>1 078</td>
<td>41</td>
</tr>
</tbody>
</table>

265. Timber exports constituted about 3 to 4 per cent of Thailand's total export value in recent years.
The Government-owned Forest Industry Organization (FIO) has been granted concessions to extract teak and "Yang" wood throughout the country, but it sells by auction most of its production to local millers and private exporters. It also extracts and sells other varieties of wood for which no exclusive concession has been given, but FIO's share in Thailand's timber exports was only 5 per cent in 1961/62. It obtains no special privilege in the export trade.

266. FIO was created in 1947 initially under the Forest Department with a registered capital of Baht 100 million,23 a quarter of which has been paid. From 1956 it has been a juristic person under the supervision of the Ministry of Agriculture. Its main objective is to extract forest products in a regulated manner with a view to avoiding over-exploitation of resources. FIO also operates three sawmills, a plywood factory, a wood preservation treatment plant and a kiln. Its board of directors, headed by the Minister of Agriculture, consists of the Under-Secretary of 268. The activities of the Organization consist mainly of buying paddy, rice, maize and raw cotton from producers at a guaranteed minimum price, especially during the harvest seasons, and reselling them later in the year when prices improve. It exported a small quantity of rice, a total of 39 619 metric tons from 1957 to 1962. In import trade, the Organization has been instrumental in the Government's policy of maintaining adequate supplies and prices of certain goods. While imports of gunny bags, sugar, potatoes, and garlic have been restricted for the benefit of local producers, the Organization was directed by the Government to import and keep in stock small quantities of these goods when local prices tended to rise or shortages were envisaged. The following table shows that the Organization's import operation, averaged over seven years from 1956 to 1962, accounted for 32 per cent of its total buying operation and that its export constituted 38 per cent of its total sales during the same period:

<table>
<thead>
<tr>
<th>Year</th>
<th>Total selling operation</th>
<th>Exports: Rice</th>
<th>Total buying operation</th>
<th>Gunny bags</th>
<th>Sugar</th>
<th>Potatoes</th>
<th>Dried garlic</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(In millions of Bahts)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1956</td>
<td>15 112</td>
<td>—</td>
<td>16 173</td>
<td>2 000</td>
<td>6 476</td>
<td>110</td>
<td>1 619</td>
</tr>
<tr>
<td>1957</td>
<td>30 607</td>
<td>19 393</td>
<td>36 756</td>
<td>13 631</td>
<td>12 012</td>
<td>202</td>
<td>—</td>
</tr>
<tr>
<td>1958</td>
<td>43 491</td>
<td>5 873</td>
<td>26 276</td>
<td>—</td>
<td>—</td>
<td>145</td>
<td>—</td>
</tr>
<tr>
<td>1959</td>
<td>22 700</td>
<td>13 238</td>
<td>13 566</td>
<td>—</td>
<td>5 233</td>
<td>136</td>
<td>—</td>
</tr>
<tr>
<td>1960</td>
<td>10 502</td>
<td>6 738</td>
<td>16 165</td>
<td>1 371</td>
<td>—</td>
<td>109</td>
<td>—</td>
</tr>
<tr>
<td>1961</td>
<td>21 447</td>
<td>13 714</td>
<td>18 904</td>
<td>6 263</td>
<td>—</td>
<td>125</td>
<td>—</td>
</tr>
<tr>
<td>1962</td>
<td>44 788</td>
<td>12 403</td>
<td>38 987</td>
<td>2 324</td>
<td>—</td>
<td>268</td>
<td>—</td>
</tr>
<tr>
<td>Total</td>
<td>188 647</td>
<td>71 359</td>
<td>160 827</td>
<td>25 589</td>
<td>23 721</td>
<td>1 095</td>
<td>1 619</td>
</tr>
</tbody>
</table>

Agriculture, the Director-General of Forest Department and other members appointed by the Government. FIO's contribution to the Treasury from its inception to 1962 amounted to Baht 156.6 million.

267. During the Second World War, the Government resorted to State trading by creating a "Central Merchandise Depot" under the Department of Internal Trade for the purpose of ensuring adequate supplies of essential goods at reasonable prices and encouraging small businesses. In 1945, the Depot was integrated in the Department of Internal Trade, Ministry of Economic Affairs. After the war, its activities extended to importing agricultural equipment and other essential consumer goods, particularly textiles, and distributing them throughout the country. In 1954, it began to purchase agricultural products in rural areas in order to support prices and eliminate middlemen. Under a Royal Decree of 1955, it became known as the Warehouse Organization, legally separated from the Internal Trade Department and came under the control of a board of directors headed by the Director-General of Internal Trade Department. The Decree stipulates that the Organization will obtain from the Government a total capital of Baht 125 million; about half of this has been received.

268. The activities of the Organization consist mainly of buying paddy, rice, maize and raw cotton from producers at a guaranteed minimum price, especially during the harvest seasons, and reselling them later in the year when prices improve. It exported a small quantity of rice, a total of 39 619 metric tons from 1957 to 1962. In import trade, the Organization has been instrumental in the Government's policy of maintaining adequate supplies and prices of certain goods. While imports of gunny bags, sugar, potatoes, and garlic have been restricted for the benefit of local producers, the Organization was directed by the Government to import and keep in stock small quantities of these goods when local prices tended to rise or shortages were envisaged. The following table shows that the Organization's import operation, averaged over seven years from 1956 to 1962, accounted for 32 per cent of its total buying operation and that its export constituted 38 per cent of its total sales during the same period:

List of main Government trading agencies in the ECAFE region
(This list, which is based on available information, may be incomplete)

**Australia**
Australian Wheat Board; Australian Dairy Produce Board; Australian Egg Board; Queensland Sugar Board.

**Burma**
Union of Burma Agricultural and Marketing Board; State Timber Board; Burma Economic Development Corporation; 24 Rubber Export and Development Corporation; Civil Stores Committee I; Civil Stores Committee II; Civil Stores Committee III; Joint Venture Corporations; Petroleum and Mineral Resources Development Corporation; The Burma Corporation; Agricultural and Rural Development Corporation; Industrial Development Corporation; Burma Drug House, Limited.

**Cambodia**
Office for Purchases Abroad; Royal Office of Co-operatives; Office of State Enterprises.

**Ceylon**
Food Department; Commissioner of Commodity Purchase; Co-operative Wholesale Establishment; Ceylon Petroleum Corporation.

24 See appendix B for a list of companies under the control of Burma Economic Development Corporation.
State Trading in ECAFE Region

China (Taiwan)
Central Trust of China; Taiwan Supplies Bureau; Taiwan Sugar Corporation; Provisional Tobacco and Wine Monopoly Bureau.

India
State Trading Corporation; Director-General Supply; Indian Supply Mission, Washington; Indian Stores Department, London.

Indonesia
Food Council (Dewan Bahan Makanan); Food Foundation (Jajasan Urusan Bahan Makanan); Rice Purchasing Agency (Jajasan Bahan Pembelian Padi); General Management Board for State Trading Enterprises (Bahan Pimpinan Umum Perusahaan Dagang Negara) including: (a) P.N. Tri Bhakti, (b) P.N. Djaya Bhakti, (c) P.N. Aneka Bhakti, (d) P.N. Budhi Bhakti, (e) P.N. Fadjir Bhakti, (f) P.N. Marga Bhakti, (g) P.N. Tulus Bhakti, (h) P.N. Sinar Bhakti, (i) P.N. Sedjati Bhakti.

Japan
Food Agency; Japan Monopoly Corporation; Ministry of International Trade and Industry.

Laos
National Import and Export Office; Civil Service Supply Store.

Malaysia
Supply Section, Trade Division, Ministry of Agriculture.

Nepal
National Trading Company, Ltd.

New Zealand
Wheat Committee; Citrus Marketing Authority; Apple and Pear Marketing Board; Honey Marketing Authority; Egg Marketing Authority; Dairy Production and Marketing Board.

Pakistan
Ministry of Food and Agriculture; Directorate General Supply and Development, Government of Pakistan; Directorate of Supply, Government of East/West Pakistan.

Philippines
Rice and Corn Administration (RCA); Philippine Tobacco Administration (PTA); Philippine Virginia Tobacco Administration (PVTA); Abaca Corporation of the Philippines (ABACORP); National Marketing Corporation (NAMARCO).

Republic of Viet-Nam
Central Purchasing Authority.

Thailand
Department of Foreign Trade; Forest Industry Organization; Warehouse Organization.

Appendix B
Companies under the control of Burma Economic Development Corporation

<table>
<thead>
<tr>
<th>Companies</th>
<th>Authorized capital (Kyat)</th>
<th>Paid-up capital</th>
<th>Business</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Burma Fisheries, Ltd.</td>
<td>3 000 000</td>
<td></td>
<td>(a) Fresh and sea water fishing; (b) Cold storage, production of dried prawns and dried fish.</td>
</tr>
<tr>
<td>2. International Trading House, Ltd.</td>
<td>5 000 000</td>
<td>1 500 000</td>
<td>(a) Import of motor vehicles, machinery, etc.; (b) Export of oil cakes, pulse, rice and rice products; (c) commission agents.</td>
</tr>
<tr>
<td>3. Burma Asiatic, Ltd.</td>
<td>5 000 000</td>
<td>1 000 000</td>
<td>(a) Import of motor vehicles, medicines, milkfood, machinery, consumer goods; (b) export of oil cakes, maize, pulse, rice, rice products, rubber, beans and mineral ores; (c) commission agents.</td>
</tr>
<tr>
<td>4. Ava House, Ltd.</td>
<td>600 000</td>
<td>600 000</td>
<td>(a) Book sellers and stationery; (b) importers and exporters of books, stationery and office equipment; (c) commission agents; (d) binding of exercise books; (e) publisher and printer.</td>
</tr>
<tr>
<td>5. City Transport Company, Ltd.</td>
<td>2 000 000</td>
<td></td>
<td>Transportation, public transport in Rangoon.</td>
</tr>
<tr>
<td>6. Rowe and Co., Ltd.</td>
<td>6 000 000</td>
<td>3 000 000</td>
<td>(a) Department store; (b) importers of consumer goods; (c) commission agents.</td>
</tr>
<tr>
<td>7. Motor House Co., Ltd.</td>
<td>450 000</td>
<td>260 839</td>
<td>(a) Vehicle repair service station; (b) importers and distributors of motor vehicles and parts; (c) commission agents.</td>
</tr>
<tr>
<td>8. Mechanical and Electrical Works, Ltd.</td>
<td>1 000 000</td>
<td></td>
<td>(a) Radio assembly; (b) importers of radio parts and accessories; (c) automobile workshop; (d) commission agents.</td>
</tr>
<tr>
<td>9. The United Coal and Coke Suppliers and General Trading Co., Ltd.</td>
<td>500 000</td>
<td>300 000</td>
<td>Importers, agents and suppliers of coal and coke.</td>
</tr>
<tr>
<td>10. General Trading Co., Ltd.</td>
<td>2 000 000</td>
<td>1 000 000</td>
<td>(a) Export of salt, potatoes, etc.; (b) general importers and commission agents; (c) local sale of firewood, fuel and ngapi.</td>
</tr>
<tr>
<td>11. Burmese Trading House, Ltd.</td>
<td>700 000</td>
<td>50 000</td>
<td>Import of radios, clocks, watches, toilet requisites, fountain pens, etc.</td>
</tr>
<tr>
<td>12. Tourist Burma, Ltd.</td>
<td>500 000</td>
<td>200 000</td>
<td>(a) Tourist and travel agency; (b) curio stores; (c) restaurateur.</td>
</tr>
<tr>
<td>Companies</td>
<td>Authorized capital (Kya)</td>
<td>Paid-up capital (Kya)</td>
<td>Business</td>
</tr>
<tr>
<td>--------------------------------------------------------</td>
<td>--------------------------</td>
<td>-----------------------</td>
<td>-------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>13. S. Oppenheimer and Co., Ltd.</td>
<td>1,500,000</td>
<td>936,000</td>
<td>General importers, exporters and commission agents</td>
</tr>
<tr>
<td>14. Dalhousie stores</td>
<td>30,000</td>
<td>30,000</td>
<td>General importers, exporters and commission agents</td>
</tr>
<tr>
<td>15. Centrade Polyproducts, Ltd.</td>
<td>5,000,000</td>
<td>300,000</td>
<td>(a) Civil and mechanical engineers, and contractors; (b) general importers and commission agents; (c) industries and mining; (d) export of minerals. (a) Manufacturers of plywood; (b) saw mill; (c) export of timber and teak plywood.</td>
</tr>
<tr>
<td>16. Burma Teak and Plywood Trading Co., Ltd.</td>
<td>500,000</td>
<td>...</td>
<td>General importers and commission agents</td>
</tr>
<tr>
<td>17. Diesel and General</td>
<td>500,000</td>
<td>100,000</td>
<td>(a) Diesel and vehicle repair and service station; (b) general importers and commission agents.</td>
</tr>
<tr>
<td>18. The Burma Five Star Line, Ltd.</td>
<td>1,200,000</td>
<td>1,200,000</td>
<td>Trans-oceanic and coastal shipping</td>
</tr>
<tr>
<td>19. Burma National Housing and Construction Co., Ltd.</td>
<td>2,000,000</td>
<td>2,000,000</td>
<td>Building contractors and engineers</td>
</tr>
<tr>
<td>20. Burma Farms, Ltd.</td>
<td>2,000,000</td>
<td>60,000</td>
<td>Poultry and animal husbandry</td>
</tr>
<tr>
<td>21. The Export Import Bank, Ltd.</td>
<td>10,000,000</td>
<td>2,100,000</td>
<td>General banking with emphasis on foreign exchange business</td>
</tr>
<tr>
<td>23. Continental Trading House, Ltd.</td>
<td>2,000,000</td>
<td>100,000</td>
<td>General importers and commission agents</td>
</tr>
<tr>
<td>24. Lodge Plugs (Burma), Ltd.</td>
<td>1,000,000</td>
<td>500,000</td>
<td>Partial manufacture and assembly of spark plugs.</td>
</tr>
<tr>
<td>25. Burma Shoes, Ltd.</td>
<td>1,000,000</td>
<td>600,000</td>
<td>Manufacture of shoes, boots, harness, saddle and leather goods.</td>
</tr>
<tr>
<td>26. Burma Hotels, Ltd.</td>
<td>1,000,000</td>
<td>400,000</td>
<td>Hoteliers and restaurateurs.</td>
</tr>
<tr>
<td>27. Rangoon Agencies, Ltd.</td>
<td>90,000</td>
<td>90,000</td>
<td>Shipping and clearing agents.</td>
</tr>
<tr>
<td>28. Burma Paints, Ltd.</td>
<td></td>
<td></td>
<td>Textile weaving and spinning, textile machinery marketing, textile raw material sale, etc.</td>
</tr>
<tr>
<td>29. Burma Beverages, Ltd.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>30. Multiter, Ltd.</td>
<td>5,000,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>31. Hotel International Ltd.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>32. People Loans Co., Ltd.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>33. Burma Chemical Industries, Ltd.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>34. Mandalay Brewery and Distillery, Ltd.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>35. Burma Pharmaceutical Industry</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>36. Burma Departmental Stores, Ltd.</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
TRADE BETWEEN DEVELOPING ECAFE COUNTRIES AND CENTRALLY-PLANNED ECONOMIES*

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NOTE

The designations employed and the presentation of the material in this publication do not imply the expression of any opinion whatsoever on the part of the Secretariat of the United Nations concerning the legal status of any country or territory or of its authorities, or concerning the delimitation of its frontiers.

INTRODUCTION

1. This is a preliminary study aimed at presenting basic facts and statistics concerning the trade of developing ECAFE countries with centrally-planned economies. No attempt is made in this paper to deal with non-economic aspects of trade, although non-economic factors often have a significant bearing on trade relations between these two groups of countries.

2. In the present study, ECAFE countries include only those with market economies.1 The centrally-planned economies cover eight eastern European countries—namely, Albania, Bulgaria, Czechoslovakia, Eastern Germany, Hungary, Poland, Romania and the Union of Soviet Socialist Republics—and four Asian countries—namely, mainland China, North Korea, Mongolia and North Viet-Nam. Both groups represent the largest regions of the world in terms of population. The centrally-planned economies cover about one-third of world population or over 1,000 million, of which over 700 million inhabit mainland China, North Korea, Outer Mongolia and North Viet-Nam. On the other hand, the developing market economies in Asia had a population in 1961 of about 860 million, representing the largest region in terms of population as compared with Africa, America and

1 For the purpose of this study, developing ECAFE countries include Afghanistan, Brunei, Burma, Cambodia, Ceylon, China (Taiwan), the Federation of Malaya, Hong Kong, India, Indonesia, Iran, the Republic of Korea, Laos, Nepal, North Borneo, Pakistan, the Philippines, Sarawak, Singapore, Thailand and the Republic of Viet-Nam. Subject to the availability and comparability of data, statistics of all these countries are included as far as possible. In all tables in this paper data for Afghanistan and Iran are not included unless it is otherwise indicated, due to the lack of comparable data.
western Europe. Yet, each of these groups of countries accounts for a very small share of world trade; the volume of trade between the two groups is even more meagre in relation to world trade, as shown in the next section of this paper.

3. This paper is divided into three main sections. The first section gives an over-all picture of trade of centrally-planned economies with developing ECAFE countries in comparison with that with other regions of the world and the pattern of trade of these ECAFE countries taken collectively and individually with centrally-planned economies. The second section deals with the experience of developing ECAFE countries in their trade with the centrally-planned economies. Some preliminary conclusions are drawn on the basis of the limited information available. The third section contains brief studies on the experience of four ECAFE countries (Burma, Ceylon, India and Indonesia) in their trade with the centrally-planned economies.

4. Although, due to lack of information, other countries could not be included in this study, it is desirable to make the study more comprehensive by including them. It is therefore requested that other countries of the ECAFE region, especially those countries which have developed trading relations with the centrally-planned economies, submit such information to the secretariat at the seventh session of the Committee on Trade.

5. In making use of the data contained herein, one should bear in mind the essential differences between the two economic systems. Useful information on centrally-planned economies, including the position of centrally-planned economies in world trade, foreign trade planning, trading practices, trade organizations and certain problems of trade resulting from the different economic systems may be obtained from other United Nations studies. In order to avoid unnecessary duplication, these subjects will not be discussed in this paper except for passing references where necessary.

Part I

PRESENT POSITION AND RECENT DEVELOPMENTS

GROWTH OF TRADE OF CENTRALLY-PLANNED ECONOMIES

6. Although the share of foreign trade of the centrally-planned economies in total world trade is very small, the growth appears impressive. During the nine-year period of 1952-1961, the trade growth of the centrally-planned economies was faster than that of the developed countries if both groups are taken collectively (Table 1). Table 2 shows that the growth rates of foreign trade attained by individual centrally-planned economies in Europe vary widely from country to country. The Asian centrally-planned economies together achieved a rapid rate of growth until 1956, after which their external trade became somewhat erratic and in 1960-1961 dropped drastically.

7. However, a comparison of trade statistics between the Asian centrally-planned economies and those of eastern Europe should be made with care, since the former do not include trade between the Asian centrally-planned economies with one another whereas the latter include inter-bloc trade. Although it is reasonable to believe that the trade between these Asian centrally-planned economies constitutes only a fraction of the total trade of mainland China while forming a large proportion in total trade of Mongolia, North Korea and North Viet-Nam, it is not possible to establish with any degree of certainty the extent of trade between the Asian centrally-planned economies due to the lack of data.

8. In examining the growth of foreign trade of the Asian centrally-planned economies during the fifties, one should be aware of the economic conditions of mainland China before and during the years used as statistical bases. Mainland China suffered during twelve years of the Sino-Japanese War of 1937-1945 and the civil war of 1946-1949. Only after the establishment of the Central People's Government of the People's Republic of China in October 1949 did the period of economic rehabilitation begin. The prewar level of national product was almost regained in 1952 from the low ebb of 1949. Real net growth may be said to have begun in 1953 with the launching of the first five-year plan (1953-1957). The early part of the fifties was also the time of bitter wars and devastation followed by truces in North Korea and North Viet-Nam. It is obvious therefore that the starting points for these countries are indeed very low and that, with the restriction of consumption enforced in mainland China, their rate of economic growth during the period surpassed other developing countries in Asia during the fifties.

9. Table 2 shows that exports of the Asian centrally-planned economies reached a peak in 1959, which was the year that followed the unusually good harvest of 1958. But in 1960, mainland China announced “the most severe natural calamities in a century”, and in 1961 also severe natural calamities were reported. The period of 1958-1961 was also a time of economic and political readjustments for mainland China, the system of rural communes was
TRADE BETWEEN ECAFE COUNTRIES AND CENTRALLY-PLANNED ECONOMIES

TABLE 1
The shares in world exports of the centrally-planned economies, developed countries and developing countries
(In millions of US dollars)

<table>
<thead>
<tr>
<th>1952</th>
<th>1961</th>
<th>Percentage increase 1952-1961</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total world trade</td>
<td>80 400</td>
<td>100</td>
</tr>
<tr>
<td>Centrally-planned economies</td>
<td>7 020</td>
<td>8.7</td>
</tr>
<tr>
<td>Asia</td>
<td>950</td>
<td>1.2</td>
</tr>
<tr>
<td>Developed countries</td>
<td>52 410</td>
<td>65.2</td>
</tr>
<tr>
<td>Japan</td>
<td>1 270</td>
<td>1.6</td>
</tr>
<tr>
<td>Developing countries</td>
<td>20 970</td>
<td>26.1</td>
</tr>
</tbody>
</table>


* Excluding trade with one another of mainland China, Mongolia, North Korea, and North Viet-Nam.
* Including mainland China, Mongolia, North Korea and North Viet-Nam, but excluding trade with one another of these countries.

TABLE 2
Centrally-planned economies: Value of imports and exports, 1952-1961
(In millions of US dollars)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Albania</td>
<td>Import</td>
<td>43</td>
<td>39</td>
<td>53</td>
<td>79</td>
<td>85</td>
<td>81</td>
<td>...</td>
<td>...</td>
</tr>
<tr>
<td>Export</td>
<td>13</td>
<td>19</td>
<td>29</td>
<td>29</td>
<td>34</td>
<td>...</td>
<td>49</td>
<td>...</td>
<td>...</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>Import</td>
<td>200</td>
<td>196</td>
<td>220</td>
<td>200</td>
<td>230</td>
<td>250</td>
<td>300</td>
<td>350</td>
</tr>
<tr>
<td>Export</td>
<td>206</td>
<td>233</td>
<td>237</td>
<td>241</td>
<td>302</td>
<td>370</td>
<td>373</td>
<td>467</td>
<td>572</td>
</tr>
<tr>
<td>Czechoslovakia</td>
<td>Import</td>
<td>876</td>
<td>879</td>
<td>933</td>
<td>1 053</td>
<td>1 168</td>
<td>1 387</td>
<td>1 357</td>
<td>1 602</td>
</tr>
<tr>
<td>Export</td>
<td>874</td>
<td>904</td>
<td>1 005</td>
<td>1 186</td>
<td>1 387</td>
<td>1 358</td>
<td>1 513</td>
<td>1 727</td>
<td>1 929</td>
</tr>
<tr>
<td>Eastern Germany</td>
<td>Import</td>
<td>727</td>
<td>920</td>
<td>992</td>
<td>1 042</td>
<td>1 188</td>
<td>1 432</td>
<td>1 490</td>
<td>1 764</td>
</tr>
<tr>
<td>Export</td>
<td>678</td>
<td>706</td>
<td>898</td>
<td>1 175</td>
<td>1 253</td>
<td>1 606</td>
<td>1 678</td>
<td>1 892</td>
<td>1 950</td>
</tr>
<tr>
<td>Hungary</td>
<td>Import</td>
<td>488</td>
<td>532</td>
<td>554</td>
<td>574</td>
<td>601</td>
<td>681</td>
<td>683</td>
<td>731</td>
</tr>
<tr>
<td>Export</td>
<td>498</td>
<td>519</td>
<td>601</td>
<td>687</td>
<td>688</td>
<td>684</td>
<td>770</td>
<td>874</td>
<td>976</td>
</tr>
<tr>
<td>Poland</td>
<td>Import</td>
<td>863</td>
<td>774</td>
<td>904</td>
<td>932</td>
<td>1 022</td>
<td>1 251</td>
<td>1 227</td>
<td>1 420</td>
</tr>
<tr>
<td>Export</td>
<td>776</td>
<td>831</td>
<td>869</td>
<td>913</td>
<td>985</td>
<td>975</td>
<td>1 060</td>
<td>1 145</td>
<td>1 326</td>
</tr>
<tr>
<td>Romania</td>
<td>Import</td>
<td>385</td>
<td>338</td>
<td>384</td>
<td>352</td>
<td>415</td>
<td>482</td>
<td>502</td>
<td>648</td>
</tr>
<tr>
<td>Export</td>
<td>341</td>
<td>360</td>
<td>391</td>
<td>395</td>
<td>390</td>
<td>468</td>
<td>523</td>
<td>717</td>
<td>793</td>
</tr>
<tr>
<td>USSR</td>
<td>Import</td>
<td>3 061</td>
<td>3 613</td>
<td>3 938</td>
<td>4 350</td>
<td>5 073</td>
<td>5 630</td>
<td>5 832</td>
<td>5 998</td>
</tr>
<tr>
<td>Export</td>
<td>3 469</td>
<td>3 612</td>
<td>4 382</td>
<td>4 298</td>
<td>5 441</td>
<td>5 562</td>
<td>5 998</td>
<td>6 070</td>
<td>6 218</td>
</tr>
</tbody>
</table>


* Including Brunei, Burma, Cambodia, Ceylon, China (Taiwan), the Federation of Malaya, Hong Kong, India, Indonesia, the Republic of Korea, North Borneo, Pakistan, the Philippines, Sarewak, Singapore, Thailand and the Republic of Viet-Nam.

 trialed and adjusted. The strained political relations between mainland China and the Soviet Union also caused trade between the two countries to decline disproportionately in 1960-1961, while trade with the West rose in absolute value besides gaining greater shares of the market in the Asian centrally-planned economies.

**DIRECTION OF TRADE**

10. While the share in the world market of exports from developing countries, particularly those situated in Asia, contracted substantially and the share of developed countries slightly increased during 1952-1961, the market share of the centrally-planned
TABLE 3
Direction of international trade of centrally-planned economies, 1955 and 1961
(In millions of US dollars and percentage distribution)

<table>
<thead>
<tr>
<th>Country Group</th>
<th>1955</th>
<th>1961</th>
<th>Percentage Increase or Decrease</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Million $US</td>
<td>Percentage</td>
<td>Million $US</td>
</tr>
<tr>
<td><strong>Imports</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Eastern Europe</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>From all countries</td>
<td>7360</td>
<td>100</td>
<td>13810</td>
</tr>
<tr>
<td>From other centrally-planned economies</td>
<td>5760</td>
<td>78.3</td>
<td>9900</td>
</tr>
<tr>
<td>From developed countries</td>
<td>1180</td>
<td>16.0</td>
<td>2690</td>
</tr>
<tr>
<td>From developing countries</td>
<td>410</td>
<td>5.6</td>
<td>1160</td>
</tr>
<tr>
<td>Africa</td>
<td>130</td>
<td>1.8</td>
<td>300</td>
</tr>
<tr>
<td>Asia</td>
<td>90</td>
<td>1.2</td>
<td>355</td>
</tr>
<tr>
<td>Latin America</td>
<td>175</td>
<td>2.4</td>
<td>505</td>
</tr>
<tr>
<td>Asian centrally-planned economies</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>From all countries</td>
<td>1500</td>
<td>100</td>
<td>1570</td>
</tr>
<tr>
<td>From other centrally-planned economies</td>
<td>1190</td>
<td>79.1</td>
<td>810</td>
</tr>
<tr>
<td>From developed countries</td>
<td>150</td>
<td>10.0</td>
<td>500</td>
</tr>
<tr>
<td>From developing countries</td>
<td>165</td>
<td>11.0</td>
<td>236</td>
</tr>
<tr>
<td>Africa</td>
<td>27</td>
<td>1.8</td>
<td>37</td>
</tr>
<tr>
<td>Asia</td>
<td>132</td>
<td>8.8</td>
<td>127</td>
</tr>
<tr>
<td>Latin America</td>
<td>6</td>
<td>0.4</td>
<td>72</td>
</tr>
<tr>
<td><strong>Exports</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Eastern Europe</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>To all countries</td>
<td>8010</td>
<td>100</td>
<td>14120</td>
</tr>
<tr>
<td>To other centrally-planned economies</td>
<td>5990</td>
<td>74.8</td>
<td>9790</td>
</tr>
<tr>
<td>To developed countries</td>
<td>1500</td>
<td>18.7</td>
<td>2750</td>
</tr>
<tr>
<td>To developing countries</td>
<td>390</td>
<td>4.7</td>
<td>1180</td>
</tr>
<tr>
<td>Africa</td>
<td>115</td>
<td>1.4</td>
<td>330</td>
</tr>
<tr>
<td>Asia</td>
<td>73</td>
<td>0.9</td>
<td>350</td>
</tr>
<tr>
<td>Latin America</td>
<td>140</td>
<td>1.7</td>
<td>500</td>
</tr>
<tr>
<td>Asian centrally-planned economies</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>To all countries</td>
<td>1420</td>
<td>100</td>
<td>1520</td>
</tr>
<tr>
<td>To other centrally-planned economies</td>
<td>960</td>
<td>67.6</td>
<td>920</td>
</tr>
<tr>
<td>To developed countries</td>
<td>210</td>
<td>14.8</td>
<td>240</td>
</tr>
<tr>
<td>To developing countries</td>
<td>239</td>
<td>16.6</td>
<td>341</td>
</tr>
<tr>
<td>Africa</td>
<td>22</td>
<td>1.5</td>
<td>31</td>
</tr>
<tr>
<td>Asia</td>
<td>215</td>
<td>15.1</td>
<td>306</td>
</tr>
<tr>
<td>Latin America</td>
<td>2</td>
<td>0.1</td>
<td>4</td>
</tr>
</tbody>
</table>


11. Although trade with the developing countries constituted only a fraction of the total trade of the eastern European countries, the rate of expansion of their trade with developing countries from 1955 to 1961 was phenomenal. Table 3 clearly shows that the centrally-planned economies in Europe almost tripled their purchases from developing countries and that their sales to these countries multiplied 3.6 times in the six years. The largest gain went to the developing countries in Asia, which were able to increase their exports to eastern Europe by nearly four times, and which in turn obtained nearly five times more imports from these sources during the period. Although the share of imports from developing countries in Asia remained small as compared with those in Africa and Latin America, Asia's share in the total imports of centrally-planned economies from all developing countries of the world increased from 22 per cent in 1955 to 30 per cent in 1961.

12. But the picture of trade development of mainland China during the 1955-1961 period was totally different from that of the eastern European countries. While the total trade of mainland China hardly increased during the period, its imports from eastern Europe dropped sharply and its exports to eastern economies, especially those in eastern Europe, expanded considerably. Table 3, showing the direction of trade of the centrally-planned economies, reveals that the increase was due to the rapid expansion of trade with countries other than the centrally-planned economies. It also reveals that the trade of the centrally-planned economies became more diversified; that there was less concentration of trade among themselves. The proportion of trade with one another of the centrally-planned economies, which in 1955 constituted a major proportion, nearly 80 per cent, of their total trade, was much reduced in 1961. The reduction is striking in the case of imports of mainland China from eastern Europe.

4 For detailed discussion on the pattern, growth, commodity structures of export and imports of each eastern European country, see Economic Bulletin for Europe, Ibid.
TABLE 4
Centrally-planned economies: Imports, exports and balance of trade by regions, 1950-1961 aggregates
(In millions of US dollars)

<table>
<thead>
<tr>
<th></th>
<th>Total 1950-1961</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Imports</td>
</tr>
<tr>
<td>Asian centrally-planned economies a</td>
<td></td>
</tr>
<tr>
<td>Import from or export to:</td>
<td></td>
</tr>
<tr>
<td>Eastern Europe</td>
<td>12 665</td>
</tr>
<tr>
<td>Developed countries (excluding Japan)</td>
<td>2 782</td>
</tr>
<tr>
<td>Japan</td>
<td>300</td>
</tr>
<tr>
<td>Asian developing countries</td>
<td>2 262</td>
</tr>
<tr>
<td>Other developing countries</td>
<td>533</td>
</tr>
<tr>
<td>Eastern Europe Import from or export to:</td>
<td></td>
</tr>
<tr>
<td>Asian centrally-planned economies a</td>
<td>11 315</td>
</tr>
<tr>
<td>Developed countries (excl. Japan)</td>
<td>17 373</td>
</tr>
<tr>
<td>Japan</td>
<td>231</td>
</tr>
<tr>
<td>Asian developing countries</td>
<td>1 910</td>
</tr>
<tr>
<td>Other developing countries</td>
<td>4 180</td>
</tr>
</tbody>
</table>

a Including mainland China, Mongolia, North Korea and North Viet-Nam.

Europe also declined. The drop of trade with eastern Europe was more than offset by the rapidly increased imports from developed countries and expanded sales to developing countries. This development made the trade pattern of mainland China significantly different from that of other centrally-planned economies; the proportion of trade with the market economies became almost equal to that with centrally-planned economies (Table 3).

13. It should be noted that the developing countries in Asia formed the largest market for export from mainland China outside the centrally-planned economies group; purchases by these Asian countries in 1961 accounted for 90 per cent of the exports from mainland China to all the developing countries of the world. On the other hand, imports by mainland China from these Asian countries in 1961 as compared with 1955 declined both in absolute value and proportion, while developing countries in Africa were able to increase their exports to mainland China by 37 per cent and those in Latin America by 1,100 per cent. Mainland China had an export balance of trade with Asian developing countries for a consistently long period in the 1950s and this contributed to its ability to increase considerably its purchases from developed countries outside Asia (Table 4). This, in turn, enabled mainland China to reduce its dependence on trade with other members of the socialist countries perceptibly during the fifties.

ECAFE COUNTRIES' DEPENDENCE ON TRADE WITH CENTRALLY-PLANNED ECONOMIES

14. In 1961, about 6 per cent of exports from developing ECAFE countries found their markets in the centrally-planned economies. About the same proportion of exports from Africa and Latin America went to centrally-planned economies. As in Africa and Latin America, exports to eastern Europe accounted for a major share of the total exports to all centrally-planned economies from developing ECAFE countries; the difference, however, is that the dependence on mainland China as a market declined in the ECAFE region but rose in the other regions. It should also be noted from Table 5 that the importance of trade with developed countries in the total trade of developing ECAFE countries changed little during the 1955-1961 period, while the European centrally-planned economies gained considerably in their relative importance within a short period of time. Their role as buyers from developing ECAFE countries was stepped up more rapidly than the their role as sellers during the period.

15. A comparison of Tables 3 and 5 indicates that the degree of dependence of mainland China on trade with the developing ECAFE region is much greater than that of the developing ECAFE countries on mainland China. In 1960, mainland China depended on developing ECAFE countries for 20 per cent of its exports and 8 per cent of its imports, as against the latter's dependence on mainland China for 3 per cent of their imports and 2 per cent of their exports. But the position of the developing ECAFE countries vis-à-vis eastern Europe was just to the contrary.

16. As trade with the centrally-planned economies was mainly with a limited number of developing ECAFE countries, the degree of dependence on that trade was very high for these Asian countries (Table 6). Afghanistan in 1955 conducted over one-third of its trade with eastern Europe and in 1961 more than half of its imports came from that region. The Afghanistan position is of course unique. Being geographically contiguous to the Union of Soviet Socialist Republics and faced with transit trade difficulties stemming from political problems with its southern neighbour, Afghanistan depended more heavily on trade with the centrally-planned economies than other ECAFE countries did. Next to Afghanistan were Burma, Indonesia, Cambodia and Ceylon, in the order of degree of their dependence on trade with the centrally-planned economies. The rapid increase within a short time of such dependence was noteworthy. The free port of Hong Kong was an important outlet for mainland China's exports, which formed about a quarter of Hong Kong's total imports in 1955. The proportion was, however, substantially reduced in 1961. The trade between developing ECAFE countries and the centrally-planned economies is further analysed in the next section of the paper.

PATTERN OF TRADE BETWEEN DEVELOPING ECAFE REGION AND THE CENTRALLY-PLANNED ECONOMIES

17. As trade between market economies and centrally-planned economies was generally initiated and developed under the terms of bilateral arrangements on trade, aid or loans, the pattern of trade between these groups usually followed the lines set forth by these arrangements which were, in turn, subject to negotiations and reviews at regular intervals.
TABLE 5
Direction of international trade of developing ECAFE countries and Japan, 1955 and 1961
(In millions of US dollars and percentage distribution)

<table>
<thead>
<tr>
<th></th>
<th>1955</th>
<th>1961</th>
<th>Percentage increase or decrease (——) 1955-1961</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Million $US</td>
<td>Percentage</td>
<td>Million $US</td>
</tr>
<tr>
<td><strong>Imports</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Developing ECAFE countries</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>From all countries</td>
<td>6,790</td>
<td>100</td>
<td>9,560</td>
</tr>
<tr>
<td>From other developing ECAFE countries</td>
<td>1,955</td>
<td>28.8</td>
<td>2,075</td>
</tr>
<tr>
<td>From developed countries</td>
<td>4,140</td>
<td>61.0</td>
<td>6,270</td>
</tr>
<tr>
<td>From centrally-planned economies</td>
<td>288</td>
<td>4.3</td>
<td>656</td>
</tr>
<tr>
<td>Eastern Europe</td>
<td>73</td>
<td>1.1</td>
<td>350</td>
</tr>
<tr>
<td>China (mainland)</td>
<td>215</td>
<td>3.2</td>
<td>306</td>
</tr>
<tr>
<td>Japan</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>From all countries</td>
<td>2,120</td>
<td>100</td>
<td>4,800</td>
</tr>
<tr>
<td>From developing ECAFE countries</td>
<td>565</td>
<td>26.7</td>
<td>780</td>
</tr>
<tr>
<td>From developed countries</td>
<td>1,080</td>
<td>50.9</td>
<td>3,020</td>
</tr>
<tr>
<td>From centrally-planned economies</td>
<td>83</td>
<td>3.9</td>
<td>177</td>
</tr>
<tr>
<td>Eastern Europe</td>
<td>5</td>
<td>0.2</td>
<td>135</td>
</tr>
<tr>
<td>China (mainland)</td>
<td>78</td>
<td>3.7</td>
<td>42</td>
</tr>
<tr>
<td><strong>Exports</strong></td>
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<td></td>
<td></td>
</tr>
<tr>
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<td></td>
<td></td>
</tr>
<tr>
<td>To all countries</td>
<td>6,850</td>
<td>100</td>
<td>7,480</td>
</tr>
<tr>
<td>To other developing ECAFE countries</td>
<td>1,955</td>
<td>28.5</td>
<td>2,075</td>
</tr>
<tr>
<td>To developed countries</td>
<td>4,030</td>
<td>58.8</td>
<td>4,300</td>
</tr>
<tr>
<td>To centrally-planned economies</td>
<td>222</td>
<td>3.2</td>
<td>482</td>
</tr>
<tr>
<td>Eastern Europe</td>
<td>90</td>
<td>1.3</td>
<td>355</td>
</tr>
<tr>
<td>China (mainland)</td>
<td>132</td>
<td>1.9</td>
<td>127</td>
</tr>
<tr>
<td>Japan</td>
<td></td>
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</tr>
<tr>
<td>To all countries</td>
<td>2,000</td>
<td>100</td>
<td>4,240</td>
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<tr>
<td>To developing ECAFE countries</td>
<td>725</td>
<td>36.3</td>
<td>1,385</td>
</tr>
<tr>
<td>To developed countries</td>
<td>790</td>
<td>39.5</td>
<td>1,910</td>
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<tr>
<td>To centrally-planned economies</td>
<td>39</td>
<td>2.0</td>
<td>103</td>
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<tr>
<td>Eastern Europe</td>
<td>11</td>
<td>0.6</td>
<td>77</td>
</tr>
<tr>
<td>China (mainland)</td>
<td>28</td>
<td>1.4</td>
<td>26</td>
</tr>
</tbody>
</table>


A common characteristic of trade between developing countries and the centrally-planned economies was persistent in the ECAFE region during the period under review: namely, a high degree of concentration of trade with a few countries.

18. Only six countries provided as much as 85 per cent of the total exports from all developing ECAFE countries to the centrally-planned economies in 1961. These countries are India, Indonesia, Singapore, the Federation of Malaya and Ceylon, in the order of their contribution. The degree of concentration was slightly less in 1955 when only 80 per cent of exports from developing ECAFE countries were provided by six countries (Table 7).

19. The imports from the centrally-planned economies were more concentrated in a few developing ECAFE countries in 1955, when six countries bought as much as 92 per cent of all imports from the centrally-planned economies. The concentration was reduced in 1961, when six countries were responsible for 74 per cent of all imports from the centrally-planned economies. The latter group of countries are Hong Kong, India, Indonesia, Afghanistan, Singapore and the Federation of Malaya, in the order of their contribution. Among these countries, Hong Kong was by far the largest importer of goods from the centrally planned economies, because of its position as an entrepôt serving as a distributor for goods from mainland China to other non-communist countries. Its role however declined as mainland China extended direct trade relations to other non-communist countries. Also, Hong Kong was in 1955 the largest supplier in Asia of goods for mainland China. During the Korean War, when a trade embargo was imposed upon mainland China, Hong Kong was a major channel for mainland China's imports from countries other than the centrally-planned economies. Again, Hong Kong's role as an importing channel for mainland China declined after the Korean truce when the embargo was gradually relaxed and virtually lifted in 1957. This is evidenced by the fact that the value of re-exports from Hong Kong to mainland China dropped

5 The embargo voted by the United Nations General Assembly in May 1951 was intended to halt exports of strategic materials to mainland China and was for some years extensively applied by the West, some of which had already instituted in 1949 informal restrictions on trade with the whole Eastern bloc.

6 Data for Mongolia, North Viet-Nam and North Korea are included.
Table 6

ECAFE countries: Proportion of trade with centrally-planned economies, 1955 and 1961
(In percentage of total value of imports and exports of each reporting country)

<table>
<thead>
<tr>
<th>Reporting country</th>
<th>1955</th>
<th>1961</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Imp.</td>
<td>Exp.</td>
</tr>
<tr>
<td>Afghanistan</td>
<td>38.7</td>
<td>34.7</td>
</tr>
<tr>
<td>Brunei</td>
<td>1.0</td>
<td>9.9</td>
</tr>
<tr>
<td>Burma</td>
<td>1.3</td>
<td>17.7</td>
</tr>
<tr>
<td>Cambodia</td>
<td>6.0</td>
<td>6.9</td>
</tr>
<tr>
<td>Ceylon</td>
<td>1.3</td>
<td>2.5</td>
</tr>
<tr>
<td>Federation of Malaya and Singapore</td>
<td>0.5</td>
<td>6.3</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>0.3</td>
<td>1.1</td>
</tr>
<tr>
<td>India</td>
<td>1.2</td>
<td>0.7</td>
</tr>
<tr>
<td>Indonesia</td>
<td>4.5</td>
<td>2.8</td>
</tr>
<tr>
<td>Iran</td>
<td>11.1</td>
<td>5.1</td>
</tr>
<tr>
<td>Japan</td>
<td>0.1</td>
<td>0.8</td>
</tr>
<tr>
<td>North Borneo</td>
<td>0.3</td>
<td>1.4</td>
</tr>
<tr>
<td>Pakistan</td>
<td>0.2</td>
<td>1.7</td>
</tr>
<tr>
<td>Sarawak</td>
<td>0.1</td>
<td>7.9</td>
</tr>
<tr>
<td>Thailand</td>
<td>1.5</td>
<td>1.0</td>
</tr>
</tbody>
</table>

Table 7

Developing ECAFE countries: Percentage distribution of trade with the centrally-planned economies, 1955 and 1961

<table>
<thead>
<tr>
<th>Reporting country</th>
<th>1955</th>
<th>1961</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>A</td>
<td>B</td>
</tr>
<tr>
<td>A</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>ECAFE countries</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Afghanistan</td>
<td>5.8</td>
<td>7.9</td>
</tr>
<tr>
<td>Burma</td>
<td>1.3</td>
<td>4.3</td>
</tr>
<tr>
<td>Cambodia</td>
<td>—</td>
<td>1.3</td>
</tr>
<tr>
<td>Ceylon</td>
<td>6.0</td>
<td>2.4</td>
</tr>
<tr>
<td>Fed. of Malaya</td>
<td>13.4</td>
<td>4.4</td>
</tr>
<tr>
<td>Singapore</td>
<td>6.9</td>
<td>0.7</td>
</tr>
<tr>
<td>Indonesia</td>
<td>7.3</td>
<td>17.9</td>
</tr>
<tr>
<td>North Borneo</td>
<td>12.7</td>
<td>11.1</td>
</tr>
<tr>
<td>Pakistan</td>
<td>0.3</td>
<td>0.3</td>
</tr>
<tr>
<td>Sarawak</td>
<td>0.7</td>
<td>0.9</td>
</tr>
<tr>
<td>Thailand</td>
<td>—</td>
<td>0.7</td>
</tr>
</tbody>
</table>

Exports

<table>
<thead>
<tr>
<th>Reporting country</th>
<th>1955</th>
<th>1961</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>A</td>
<td>B</td>
</tr>
<tr>
<td>A</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>ECAFE countries</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Afghanistan</td>
<td>7.4</td>
<td>3.8</td>
</tr>
<tr>
<td>Burma</td>
<td>16.7</td>
<td>8.9</td>
</tr>
<tr>
<td>Cambodia</td>
<td>—</td>
<td>0.6</td>
</tr>
<tr>
<td>Ceylon</td>
<td>10.7</td>
<td>6.8</td>
</tr>
<tr>
<td>Fed. of Malaya</td>
<td>8.1</td>
<td>15.4</td>
</tr>
<tr>
<td>Singapore</td>
<td>13.2</td>
<td>15.8</td>
</tr>
<tr>
<td>Indonesia</td>
<td>9.7</td>
<td>23.7</td>
</tr>
<tr>
<td>North Borneo</td>
<td>13.9</td>
<td>15.8</td>
</tr>
<tr>
<td>Pakistan</td>
<td>16.1</td>
<td>6.0</td>
</tr>
<tr>
<td>Sarawak</td>
<td>0.7</td>
<td>1.0</td>
</tr>
</tbody>
</table>


A relatively small value of Afghanistan's trade with mainland China is included in data for eastern Europe. Trade statistics for 1955 are not available and 1956 data are used.

Commodity composition of trade with centrally-planned economies

20. As was to be expected, eastern European imports from the developing ECAFE countries consisted mainly of food and raw materials, but a rapidly growing proportion of imports of manufactured goods from developing ECAFE countries was most noticeable (Table 8). In 1961, more than half of the eastern European imports of manufactured goods from developing countries were from the Asian developing region. But from the viewpoint of developing ECAFE countries, exports of manufactured goods other than machinery to all the centrally-planned economies accounted for only about 2.5 per cent of the former's total exports of this commodity group to all countries (Table 9).

21. Food constituted 20 per cent of eastern European imports in 1955 and about 15 per cent in 1961, while the share of the developing countries in total food imports into eastern Europe increased from 11 per cent in 1955 to 25 per cent in 1961. Most of the increased purchases went to developing countries outside the ECAFE region. The share of the developing ECAFE countries in the eastern European food imports from all developing countries dwindled from 21 per cent in 1955 to only 12 per cent in 1961.

22. Crude material imports, which in 1955 accounted for a quarter of all imports of eastern
Asian centrally-planned economies

Eastern Europe

From all countries ........... 1955 ........... 7360
1961 ........... 13810
From developing countries 1955 ........... 410
1961 ........... 1160
From ECAFE countries ... 1955 ........... 90
1961 ........... 355

Asian centrally-planned economies

From all countries ........... 1955 ........... 1500
1961 ........... 1570
From developing countries 1955 ........... 165
1961 ........... 236
From ECAFE countries ... 1955 ........... 132
1961 ........... 127

<table>
<thead>
<tr>
<th>Imports</th>
<th>Total</th>
<th>Food</th>
<th>Crude material</th>
<th>Fuels</th>
<th>Chemicals</th>
<th>Machinery</th>
<th>Other manufactured goods</th>
</tr>
</thead>
<tbody>
<tr>
<td>Eastern Europe</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>From all countries</td>
<td>1955</td>
<td>7360</td>
<td>1370</td>
<td>1880</td>
<td>680</td>
<td>240</td>
<td>1820</td>
</tr>
<tr>
<td></td>
<td>1961</td>
<td>13810</td>
<td>2090</td>
<td>2520</td>
<td>1020</td>
<td>600</td>
<td>3490</td>
</tr>
<tr>
<td>From developing countries</td>
<td>1955</td>
<td>410</td>
<td>155</td>
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<td>—</td>
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<tr>
<td></td>
<td>1961</td>
<td>1160</td>
<td>530</td>
<td>620</td>
<td>1</td>
<td>3</td>
<td>—</td>
</tr>
<tr>
<td>From ECAFE countries</td>
<td>1955</td>
<td>90</td>
<td>33</td>
<td>58</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td></td>
<td>1961</td>
<td>355</td>
<td>67</td>
<td>254</td>
<td>—</td>
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<td>—</td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>From all countries</td>
<td>1955</td>
<td>1500</td>
<td>66</td>
<td>170</td>
<td>100</td>
<td>120</td>
<td>660</td>
</tr>
<tr>
<td></td>
<td>1961</td>
<td>1570</td>
<td>500</td>
<td>220</td>
<td>155</td>
<td>96</td>
<td>330</td>
</tr>
<tr>
<td>From developing countries</td>
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<td>24</td>
<td>105</td>
<td>—</td>
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<td>110</td>
<td>120</td>
<td>2</td>
<td>8</td>
<td>2</td>
</tr>
<tr>
<td>From ECAFE countries</td>
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<td>132</td>
<td>24</td>
<td>76</td>
<td>—</td>
<td>22</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>1961</td>
<td>127</td>
<td>40</td>
<td>71</td>
<td>2</td>
<td>7</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Exports</th>
<th>Total</th>
<th>Food</th>
<th>Crude material</th>
<th>Fuels</th>
<th>Chemicals</th>
<th>Machinery</th>
<th>Other manufactured goods</th>
</tr>
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<tr>
<td>Eastern Europe</td>
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<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>To all countries</td>
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<td>1350</td>
<td>1100</td>
<td>290</td>
<td>2440</td>
</tr>
<tr>
<td></td>
<td>1961</td>
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<td>2150</td>
<td>1920</td>
<td>1820</td>
<td>700</td>
<td>3740</td>
</tr>
<tr>
<td>To developing countries</td>
<td>1955</td>
<td>380</td>
<td>22</td>
<td>35</td>
<td>49</td>
<td>17</td>
<td>94</td>
</tr>
<tr>
<td></td>
<td>1961</td>
<td>1800</td>
<td>120</td>
<td>125</td>
<td>140</td>
<td>87</td>
<td>520</td>
</tr>
<tr>
<td>To ECAFE countries</td>
<td>1955</td>
<td>73</td>
<td>5</td>
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<td>1</td>
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<td></td>
<td>1961</td>
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<td>21</td>
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<td></td>
<td></td>
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</tr>
<tr>
<td>To all countries</td>
<td>1955</td>
<td>1420</td>
<td>475</td>
<td>620</td>
<td>11</td>
<td>24</td>
<td>12</td>
</tr>
<tr>
<td></td>
<td>1961</td>
<td>1520</td>
<td>225</td>
<td>440</td>
<td>17</td>
<td>27</td>
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</tr>
<tr>
<td>To developing countries</td>
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<td>240</td>
<td>135</td>
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<td>1961</td>
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<td>120</td>
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<tr>
<td>To ECAFE countries</td>
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<td>215</td>
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</tr>
</tbody>
</table>


a Food, beverages and tobacco (SITC Sections 0 and 1).
b Crude materials, excluding fuels; and oils and fats (SITC Sections 2 and 4).
c Mineral fuels and related materials (SITC Section 3).
d Chemicals (SITC Section 5).
e Machinery and transport equipment (SITC Section 7).
f Other manufactured goods (SITC Sections 6 and 8).

Europe, became less important in 1961, when they constituted 18 per cent of all imports. The share of developing countries in the crude material imports improved from 13 per cent in 1955 to 24 per cent in 1961 and the ECAFE share in the imports from all developing countries rose from 24 per cent to 40 per cent during the same period.

23. In 1955, when mainland China was still in the early years of its first five-year plan, imports of machinery and other manufactured goods constituted about two-thirds of total imports, and the developing ECAFE countries had hardly any share in it. In 1961, imports of food grew in relative importance, while the share of machinery and other manufactured goods decreased to about 37 per cent. Food and crude materials constituted about two-thirds of the imports of the Asian centrally-planned economies from the developing ECAFE countries in 1955; the proportion rose to 90 per cent in 1961. The developing ECAFE region, which supplied about 36 per cent of mainland China's total food imports in 1955, was practically the only developing region outside the socialist countries which provided food to mainland China at that time, but its share dropped to 8 per cent in 1961 as mainland China diversified its sources of food imports. The share of developing ECAFE countries in the total imports of crude materials also declined from 45 per cent in 1955 to 32 per cent in 1961. The imports under the "chemicals" group from the developing ECAFE countries, whose share of total imports was reduced from 20 per cent in 1955 to 7 per cent in 1961, consisted mainly of fertilizers, chemical elements and compound and pharmaceuticals.

24. Looking from the side of the developing ECAFE countries, all the centrally-planned economies took about 3 per cent of the former's total food exports in 1955 and 5 per cent in 1961. The share of crude
Table 9
ECAFE countries: Imports and exports by commodity group, 1955 and 1961
(In millions of US dollars)

<table>
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<th></th>
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<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
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<td></td>
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<tr>
<td>ECAFE developing countries</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>From all countries</td>
<td>6,790</td>
<td>9,560</td>
<td>17,500</td>
<td>10,695</td>
<td>12,695</td>
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<td>From eastern Europe</td>
<td>73</td>
<td>5</td>
<td>21</td>
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<td>215</td>
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<tr>
<td>Japan</td>
<td>1,210</td>
<td>640</td>
<td>1,070</td>
<td>2,240</td>
<td>630</td>
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<td>From all countries</td>
<td>6,850</td>
<td>7,480</td>
<td>10,900</td>
<td>5,700</td>
<td>4,110</td>
</tr>
<tr>
<td>From eastern Europe</td>
<td>90</td>
<td>37</td>
<td>58</td>
<td>254</td>
<td>37</td>
</tr>
<tr>
<td>From Asian centrally-planned economies</td>
<td>132</td>
<td>40</td>
<td>71</td>
<td>22</td>
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<td>ECAFE developing countries</td>
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<tr>
<td>To all countries</td>
<td>6,850</td>
<td>7,480</td>
<td>10,900</td>
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<td>To Asian centrally-planned economies</td>
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<td>71</td>
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<tr>
<td>Japan</td>
<td>2,000</td>
<td>4,240</td>
<td>1,765</td>
<td>1,900</td>
<td>1,130</td>
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<td>To all countries</td>
<td>2,000</td>
<td>4,240</td>
<td>1,765</td>
<td>1,900</td>
<td>1,130</td>
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<td>To eastern Europe</td>
<td>11</td>
<td>26</td>
<td>18</td>
<td>26</td>
<td>26</td>
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<td>To Asian centrally-planned economies</td>
<td>28</td>
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<td>18</td>
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</tbody>
</table>


a Food, beverages and tobacco (SITC Sections 0 and 1).
b Crude materials, excluding fuels and oils and fats (SITC Sections 2 and 4).
c Mineral fuels and related materials (SITC Section 3).
d Chemicals (SITC Section 5).
e Machinery and transport equipment (SITC Section 7).
f Other manufactured goods (SITC Sections 6 and 8).

Material exports to the centrally-planned economies rose from 4 per cent in 1955 to 11 per cent in 1961. Among the principal export commodities of the developing ECAFE region, natural rubber ranked first in having the highest proportion (21 per cent) shipped to the centrally-planned economies and was followed closely by raw cotton exports, 20 per cent of which were purchased by the centrally-planned economies. In the third rank was petroleum products, 10 per cent of which were shipped to mainland China (Table 10).

25. Table 11 gives some indication as to the size of eastern Europe's import requirements on selected primary commodities produced in the developing ECAFE region. However, it should be borne in mind that the Soviet Union has been the principal supplier of primary commodities to the rest of eastern Europe and that three-fourths of imports of eastern Europe were obtained within the socialist group of countries. The size of the total imports of each individual eastern European country as shown in Table 11 should therefore be viewed against this background.

26. Turning to the commodity composition of imports from the centrally-planned economies, one may observe that machinery and other manufactured goods formed the largest proportion (72 per cent) of total imports from eastern Europe to all developing countries in 1961 (as compared with 63 per cent in 1955). A noteworthy feature was the rapid expansion of mineral fuel imports into the developing ECAFE region. While the share of mineral fuels shipped from eastern Europe to all developing countries was about 13 per cent of the total exports under this commodity...
TABLE 10
Developing ECAFE region: Distribution of principal commodities by destination
(1958-1960 average)

<table>
<thead>
<tr>
<th></th>
<th>Total volume of exports (in thousand metric tons)</th>
<th>Total value of exports (in millions of US dollars)</th>
<th>Percentage distribution of export value</th>
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<td>Western Europe</td>
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<td>North America</td>
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<td>Japan</td>
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<tr>
<td>Tea</td>
<td>459</td>
<td>534.2</td>
<td>3.6</td>
</tr>
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<td></td>
<td>58.3</td>
<td>11.0</td>
<td>0.4</td>
</tr>
<tr>
<td>Rice</td>
<td>3 416</td>
<td>345.1</td>
<td>2.8</td>
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<tr>
<td></td>
<td>0.3</td>
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<td>9.1</td>
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<td>0.6</td>
<td>57.3</td>
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<tr>
<td></td>
<td>1.5</td>
<td>82.4</td>
<td>6.2</td>
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<tr>
<td><strong>Crude materials</strong></td>
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<td></td>
<td>8.0</td>
<td>42.7</td>
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<tr>
<td>Copra</td>
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<td>175.4</td>
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<td>50.9</td>
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<tr>
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<td>166.5</td>
<td>7.1</td>
</tr>
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<td></td>
<td>1.1</td>
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<td><strong>Mineral fuels</strong></td>
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<td>440.8</td>
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<tr>
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<td></td>
<td>0.5</td>
<td>30.6</td>
<td>9.1</td>
</tr>
<tr>
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<td>1.9</td>
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<tr>
<td></td>
<td>0.9</td>
<td>14.0</td>
<td>58.1</td>
</tr>
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<td></td>
<td></td>
<td>0.1</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>4 184.1</td>
<td>5.0</td>
<td>35.8</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>19.1</td>
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<td></td>
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<td>7.3</td>
</tr>
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</table>

group in 1955 and it remained at about this level in 1961, developing ECAFE countries which took about 2 per cent of mineral fuels exported into all developing countries in 1955 increased their share to 7 per cent in 1961 (Table 8).

27. The commodity structure of the imports of the developing ECAFE region from eastern Europe followed the above pattern. Imports of machinery and other manufactured goods accounted for 83 per cent of total imports of the developing ECAFE region from eastern Europe in 1961 as compared with 76 per cent in 1955. The share of mineral fuels increased from 1.3 per cent in 1955 to 3 per cent in 1961, while the import value multiplied ten times during the period. It is interesting to note that eastern Europe increased its share of markets in the developing ECAFE region for machinery and other manufactured goods from 1.6 per cent in 1955 to 5.6 per cent in 1961 and for mineral fuels from 0.2 per cent in 1955 to 1.4 per cent in 1961 (Table 9).

28. There was a radical change in the commodity structure of exports from mainland China during the period under review. In 1955, crude materials and foods were the two largest groups of exports, constituting 77 per cent of total exports, followed by manufactured goods. In 1961, owing to industrialization in mainland China, exports of manufactured goods other than machinery tripled in value and became the largest group of exports, constituting 53 per cent of total exports, while exports of food and crude materials accounted for 43 per cent of total exports.

29. The new commodity structure of mainland China's exports appears to commend itself to a higher degree of complementarity with the economy of developing countries. However, the market expansion for mainland China's manufactured goods in developing countries met with limited success; the increase of exports under this group to all developing countries as well as to the developing ECAFE region was less than proportionate to the increase of total exports under this commodity group. Import restrictions and the anti-dumping laws enforced in certain Asian countries after the launch of an aggressive export drive by mainland China were among the reasons for the limited markets for its manufactured goods in Asia.

30. Nevertheless, the commodity structure of imports of developing countries from mainland China assumed the pattern of mainland China's over-all exports. The import share of food and crude materials in the total imports of the developing ECAFE region from mainland China decreased from 64 per cent in 1955 to 23 per cent in 1961, while the imports of manufactured goods other than machinery became the largest group, forming 51 per cent in 1961 as against 29 per cent in 1955.

Part II
EXPERIENCE OF THE DEVELOPING ECAFE COUNTRIES

31. Available information on the working of the various aspects of trade and payments arrangements,
### Table 11

**Eastern European countries: Imports and exports of selected commodities, 1958-1961**

*(In thousands of metric tons)*

<table>
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<tr>
<th></th>
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<tr>
<td><strong>Imports:</strong></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Tea</td>
<td>1,5</td>
<td>1,2</td>
<td>1,4</td>
<td>...</td>
</tr>
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<td>135</td>
<td>...</td>
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<td>130</td>
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<td>18</td>
<td>20</td>
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<td>Natural rubber</td>
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<td>42</td>
<td>63</td>
<td>66</td>
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<tr>
<td>Raw cotton</td>
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<td>...</td>
</tr>
<tr>
<td>Hides and skins</td>
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<td>Wool</td>
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<tr>
<td>Sugar</td>
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<td>662</td>
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<td><strong>Eastern Germany</strong></td>
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<td>Rice</td>
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<td>154</td>
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<td><strong>USSR</strong></td>
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<td>71,6</td>
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<td>57,8</td>
<td>61,5</td>
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<tr>
<td>Washed wool</td>
<td>17</td>
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<td>18</td>
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and of credit, aid and technical assistance projects is inadequate and does not permit comprehensive analysis. The analysis contained in this study is based entirely on published information which is limited and does not therefore furnish answers to some important questions of trade with the centrally-planned economies.

**Trade Channels and Connexions**

32. Trading with the centrally-planned economies is a new experience for the ECAFE countries. Their experience seems to have varied from country to country, so it is not possible to draw general conclusions applicable to them all. In developing trade with the centrally-planned economies, countries of the ECAFE region have sought to discover new opportunities and channels of trade and to evolve methods of trade and payments. In so doing, they have often gone through a process of trial and error, making adjustments and modifications of trade and payments arrangements on the basis of the problems and difficulties encountered. These problems and difficulties arise partly from institutional differences—the methods of State trading and trading with foreign trade corporations of the centrally-planned economies—and partly for economic and commercial policy reasons, such as difficulties in ensuring deliveries, payments, etc.

33. In order to facilitate trade with the centrally-planned economies, some countries of the region such as Burma, India, Indonesia and Nepal have utilized Government trading agencies to a considerable extent. On the other hand, some others such as Hong Kong, Malaysia, Pakistan and Thailand have conducted their trade with the centrally-planned economies essentially through commercial channels. The private trading firms of these countries deal directly with the trading corporations of the centrally-planned economies or their local representatives. It is not clear that State trading, even in those countries where it has been employed, has been especially devised to handle trade with the centrally-planned economies. In Burma and Indonesia, Government policy has been to socialize the whole or large sectors of foreign trade and a number of Government corporations have been established to this purpose. They conduct trade with all countries, including the centrally-planned economies, and in so doing employ their own nationals (firms or individuals) as agents. In India, the State Trading Corporation handles trade in various commodities and certain other types of transactions, but this is done on a global basis and not for trade with the centrally-planned economies only. On the other hand, in India, the trading corporations of centrally-planned economies or their agents enter the market and buy and sell those commodities which are not the monopoly of the Indian State Trading Corporation. It is only in Nepal that a State trading agency has been established to deal with trade with mainland China and the Soviet Union. Thus it would appear that countries of the region have not resorted to State trading as the only way or necessarily an advantageous way of conducting trade with centrally-planned economies, but have employed State trading or commercial channels or differing combinations of both, in the light of their own special circumstances and national policy.

34. This raises the question of the adequacy of trade links and connexions with the centrally-planned economies, as compared with the free market economies with which trade links and connexions are traditionally well-established and are considered to be generally adequate. Trading corporations of centrally-planned economies either have their own offices in countries of the ECAFE region or their appointed local agents to deal on their behalf. These offices and agents provide information on products, their specifications, prices and other matters required for transacting business, just as trading firms and agents of free market economies do. They also publicize their products and requirements through trade bulletins, pamphlets, advertisements and other media. Likewise, several countries of the ECAFE region have permanent Government trade missions in centrally-planned economies and/or send special or ad hoc trade and purchase missions composed of Government officials or traders and industrialists, or both. No information is available on the extent to which private traders and industrialists of ECAFE countries are provided facilities to visit the centrally-planned economies for trade. Due to a shortage of foreign exchange and for other reasons, several countries in the region have imposed restrictions on the travel of their businessmen abroad. This includes travel to the centrally-planned economies. Some centrally-planned economies also have restrictions on the visits of foreign businessmen to their countries. It is impossible, in the abstract, to say that the existing trade links and connexions are adequate or inadequate. All that can be said with reasonable assurance is that the greater the facilities provided for the exchange of commercial information and visits of businessmen, the better the chances of trade opportunities being utilized.\(^7\)

**Bilateralism in Trade and Payments**

35. An important question which arises in a discussion of trade with the centrally-planned economies is bilateralism in trade and payments. It is not intended in this paper to discuss the merits and demerits of bilateralism or the general problems of trade between the free market economies and the centrally-planned economies, but only to narrate the specific experience of ECAFE countries. Evidence in the ECAFE region suggests that a bilateral balancing of trade is not necessarily or invariably the case. The payment arrangements are flexible and have been modified from time to time according to the particular circumstances of each country and in the light of the difficulties faced by it. As brought out in subsequent sections, Indonesia began its trade with the centrally-planned economies with a high degree of bilateralism through clearing accounts settled in

\(^7\) Mention may be made in this connexion of an Indian industrial exhibition organized in Moscow in July-August 1963, at which a wide range of Indian goods was displayed; a large number of Indian traders and industrialists who visited the Soviet Union for the exhibition were able to conclude contracts for a substantial volume of business.
convertible currencies. But after 1957, these arrangements gave way to bilateral payments arrangements. Likewise, Burma and Ceylon also began with bilateralism, but went on to devise multilateral payments arrangements providing for the settlement of balances in convertible currencies. On the other hand, India's early trade agreements with some of the centrally-planned economies did not require bilateral balancing and payments were made in convertible pound sterling. But later, after some experience with bilateral balancing and subsequently the use of clearing accounts with settlements in pound sterling, India has negotiated arrangements for payments in non-convertible rupees as a means of bilateral settlement. India has been able, under these arrangements, to import a wide range of manufactured goods and machinery to be used for its various developmental projects and in turn to export a wide range of goods, including manufactures, to the centrally-planned economies. This has been greatly facilitated by credits extended by the centrally-planned economies for development projects. The position of the other countries of the ECAFE region is probably not quite similar. These countries have had difficulties in importing their requirements from the centrally-planned economies, either for lack of adequate import programming or for other reasons, and they may have been unable to develop exports to the centrally-planned economies to the desired extent. These difficulties have sometimes led to a lack of balance resulting in excessive surpluses or deficits on bilateral accounts. Faced with credit balances in convertible currencies, some ECAFE countries (e.g., Burma, Ceylon and Indonesia) have either restricted their exports to the centrally-planned economies or arranged triangular transactions whereby they have utilized their credit balances to pay for their imports from certain other countries or re-exported goods they had imported from the centrally-planned economies. When they have developed debit balances in their accounts, they have tended to restrict imports from the centrally-planned countries. These situations are now being largely sought to be met by provision for settling the balances in convertible currencies. No information, however, is available on whether any significant payments have been made under these arrangements and how far the credits and loans received from the centrally-planned economies have obviated the need for settlement in cash or convertible currencies.

Stability and Expansion of Trade

36. On the question of stability of trade, it may be pointed out that, although exports of certain commodities from ECAFE countries to centrally-planned economies may seem to have been less stable than those which went to their traditional markets, they helped to stabilize over-all exports of and markets for these commodities, especially in the earlier years between 1952 and 1957. The non-cash terms offered by the centrally-planned economies made them become supplementary export markets, which occasionally were able to absorb substantial quantities of otherwise undisposable surpluses. For instance, Burma was able to export virtually all its large rice surplus when the rice trade was going through a "buyer's market" period by concluding barter agreements with centrally-planned economies in 1954/55, instead of selling it in cash markets at much reduced prices and thereby causing a further decline in world market. Other cases may be cited to show that the entry of the centrally-planned economies into export markets of developing ECAFE countries has helped stabilize export flows or to support internal markets for certain commodities. The first five-year agreement between Ceylon and mainland China saved Ceylon's rubber industry from being fully affected by the slump in the world rubber market in 1952-1954 and gave Ceylon an assured quantity for export at prices above international market levels. The Soviet Union's purchases of Indian raw cashew nuts in 1956 and of pepper in 1956/57, when markets declined, also contributed to stability in the trading of these commodities. However, some of these exports to the centrally-planned economies were mainly meant to be a solution to short-term problems, and they tended to decline as the world markets improved. When there was a diversion of trade, as in the case of Burmese rice re-exported to its traditional customers by some centrally-planned economies, the net expansion of trade became less.

37. While purchases by the centrally-planned economies sometimes contributed to stability in trade of certain commodities, the entry of some centrally-planned economies into the markets either as buyers or sellers at times created uncertainty and aggravated fluctuations in certain commodity markets. For instance, the large purchases of raw cotton in Pakistan by mainland China in 1956/57 caused internal prices to rise and drop sharply and adversely affected Pakistan's exports to its traditional markets. Since mainland China became a large exporter of rice in the 1950s, it added to the element of unpredictability in the market. There was no reliable information on mainland China's rice production and rice consumption policy; its rice exports showed wide fluctuations from year to year and often created significant impacts and difficulties in planning on the part of both rice importing and exporting countries of the region.

Terms of Trade

38. For a limited period, some countries were able to secure favourable terms of trade in dealing with centrally-planned economies. Ceylon, under its first barter agreement with mainland China, obtained rice at prices substantially below world market and received premium prices for its rubber. Indonesia also was able to secure prices higher than world market levels for its rubber. But these instances should not be taken as typical since rubber was a commodity under trade embargo by other rubber exporting countries until 1956, after which premium prices offered by the centrally-planned economies tended to diminish.

39. In some cases, a small premium became necessary in order to procure goods from ECAFE developing countries for export under bilateral arrangements to centrally-planned economies. For instance, in the case of Ceylon's rubber exports to mainland China, which were exclusively handled by
a Government agency, the Government could not procure sufficient quantities of rubber unless a small premium was offered by mainland China to cover the handling expenses of the Government agency. Therefore, the premium did not go directly to local producers, but was used to defray additional costs incurred in Ceylon's trade with mainland China. In Indonesia, the premium prices of about 10 per cent above world prices of rubber was hardly considered an advantage when the credit created by rubber sales in non-convertible currencies accumulated. The advantage with regard to prices was often considered largely offset by the intrinsic costs of financing exports to the centrally-planned economies when credit balances were unsettled over a period of years, as happened in Ceylon and Indonesia.

40. Regarding the prices of goods imported from the centrally-planned economies, it has been said that they were sometimes higher than from other markets, especially for capital goods. But it has also been said occasionally that they were lower than from other sources. It is particularly difficult to compare prices of capital goods from different sources. Questions relating to prices deserve further study.

CREDITS AND LOANS

41. The development of trade of the ECAFE countries with the centrally-planned economies over recent years has been analysed statistically in an earlier section of this paper, with reference to the concentration or diversification of such trade in terms of both countries and commodities. It has been noted that about 80 per cent of that trade is concentrated on six ECAFE countries, in the case of which, after showing somewhat irregular trends in the earlier years, it has tended to expand rapidly, especially during the three or four years subsequent to the negotiation of long-term trade agreements and credits. These ECAFE countries have been able to obtain capital goods and other necessities without using foreign exchange. In turn, the centrally-planned economies, most of which are also short of foreign exchange, have been able to expand their purchase of raw materials without placing further strain on their foreign exchange resources.

42. A major factor in promoting the trade of the developing ECAFE countries with the centrally-planned economies has been financial assistance, including loans and credits by the latter, for trade and specific economic development projects (India, for instance, had received over $800 million from the Soviet Union by the end of 1962 and had utilized them on several projects). These credits carry low interest rates, generally about 2½ to 3 per cent, and are repayable in goods of the borrowing country which automatically provides for export from the ECAFE developing countries. Available information on the credits extended by the centrally-planned economies has been brought together in Annex 2. This does not show whether and to what extent the credits have been utilized and on what projects by most countries. The credits are presumably being utilized for a wide range of industrial products and the greater part of them will be devoted to the import of machinery and capital goods. They are also used for the import of consumer goods such as rice and textiles by Ceylon and Indonesia. For Ceylon, official information shows that nearly two-thirds of the total amount of loans and grants extended by the centrally-planned economies up to July 1963 had not been utilized.

CONCLUSION

43. The future prospects for the trade of ECAFE developing countries with the centrally-planned economies depend upon a number of factors. The political relationship between the two groups of countries is relevant. Also is relevant how far active trading links will develop in the future between the centrally-planned economies and those ECAFE countries which have not so far developed such trading connexions. The extent to which the two groups of countries are able to utilize the machinery of long-term trade agreements, supported by credits and loans, to develop mutually advantageous exchange of goods will also be a major determining factor. More systematic and adequate programming of imports and exports and steps to fulfill those programmes would be helpful in expanding trade. Lastly, the economic and trade relations among the centrally-planned economies themselves are relevant. The extent to which ECAFE countries can increase exports of their traditional agricultural and primary products to the centrally-planned economies will depend inter alia on how far the latter are prepared to make provision for an increase in those imports in their foreign trade plans. Equally important is the scale on which they will be prepared and able to extend credits and loans. On these matters, which involve decisions on investment in various sectors and relative priorities, the centrally-planned economies should themselves be in the best position to furnish information on future prospects.

Part III

CASE STUDIES

BURMA

44. In the early fifties and especially after the general fall in price of primary commodities following the Korean War boom, Burma faced serious difficulties in disposing of its large surplus of rice and a substantial volume of unsold rice accumulated from 1953 through 1955. While storage expenses and the risks of quality deterioration ran so high and the prospects of market improvement were not in sight, the Government decided to enter into negotiations for trade agreements with the centrally-planned economies. Thus, Burmese exports to the centrally-planned economies, which had previously been negligible, became significant from 1955 onward. About 97 per cent of exports to the centrally-planned economies...
in that year consisted of rice, which formed 25 per cent in 1956 and to only 3 and 5 per cent in 1959 and 1960, respectively. The reduction was partly compensated by the shipments of other commodities, consisting mainly of rubber and raw cotton. Owing to the conclusion of a new trade agreement with mainland China, rice shipments to the centrally-planned economies rose sharply again in 1961 and formed 25 per cent of Burma's rice exports to all countries. As the Burmese price under the clearing accounts was held at about the same level from 1959 to 1962, Burmese rice was perhaps less affected than Thai rice by the decline in world price in 1960. On the other hand, Burma did not appear to benefit as fully from the general improvement in the world rice market in 1961/62 as Thailand did.

45. Under the agreements with most of the centrally-planned economies, the exact quantity and price of Burmese rice to be shipped to these countries were determined each year. The differences between the earnings per ton obtained under the clearing accounts with these countries and those from cash sales were negligible. But the price comparison regarding Burmese rice does not give a complete picture of the price advantage or disadvantage which accrued from the sales to the centrally planned economies vis-à-vis cash sales, since the prices agreed on cash sales were greatly influenced by the prices fixed yearly under the clearing accounts, no matter how large the volume committed under the clearing accounts. The comparison between the price index of Burmese rice and that of Thai rice, as shown in Table 13 below, gives a clear picture that Burmese rice in 1955/56 suffered a sharper drop in price and, while the price of Thai rice recovered in 1957, the Burmese rice dipped still further. As the Burmese price under the clearing accounts was held at about the same level from 1959 to 1962, Burmese rice was perhaps less affected than Thai rice by the decline in world price in 1960. On the other hand, Burma did not appear to benefit as fully from the general improvement in the world rice market in 1961/62 as Thailand did.

46. The early trade and payments arrangements between Burma and the centrally-planned economies provided for bilateral clearing with each individual country. The centrally-planned economies were to pay for Burma's exports mainly in capital and consumer goods and a small proportion, varying with individual countries, was to be paid for in sterling. However, due to the severe restriction that Burma imposed on imports of consumer goods, the credit balance in favour of Burma accumulated. It was estimated that on 30 September 1955 about Kyat 50-60 million was the amount of unused credit. The tripartite clearing arrangements made in 1956 and 1958 between Burma, Czechoslovakia and the Soviet Union partly solved this problem by providing for imports of Czech goods by Burma as a means of compensating the latter's credit owed by the Soviet Union. A similar arrangement was made in March 1958 between Burma, Czechoslovakia and Romania, to the effect that an entire outstanding balance in

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**Table 12**

<table>
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**Table 13**

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<tr>
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<td>68.8</td>
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<td>84.3</td>
<td>89.8</td>
<td>80.7</td>
<td>75.8</td>
<td>82.9</td>
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</tbody>
</table>

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b The official exchange rate was Kyat 4.8 to US$ 1.

favour of Burma in its trade with Romania be transferred to the Burma-Czechoslovakia clearing account.

47. As Burma's problem of dwindling foreign exchange reserves was persistent, the payment arrangements were revised. From March 1957, rice exports to mainland China were on a cash basis only. Efforts were made by Burma to replace all clearing account arrangements with provisions for settlements in pounds sterling. Agreements with clearing accounts were allowed to expire and by 1958, the only remaining clearing account agreements were those with Czechoslovakia and the Soviet Union. By 1961, all Burma's trade with centrally-planned economies, except mainland China, was conducted on a cash basis.

48. There were also other problems in Burma's trading with the centrally-planned economies during the early stages of their commercial intercourse. The Burmese press was critical of the fact that rice shipped under clearing agreements was re-exported or diverted to third countries which were traditional cash customers of Burma and thereby deprived Burma of foreign exchange earnings. The delay in delivery, quality, prices and packing of imported goods from centrally-planned economies also caused unfavourable comments from a top Burmese official and the press.13 However, some part of the unsatisfactory experience with Burma's imports from the centrally planned economies was attributable to the difficulties in import programming rather than to those involved in the nature of the trade itself. As trading with the centrally-planned economies was entirely new to most Asian countries, difficulties at the initial stages were bound to confront any organization, private or public, which had been used to trading only with countries of the same system of economy.

49. From 1956, Burma obtained from mainland China and the Soviet Union long-term credit and grants, which may contribute to the increased flow of trade between Burma and these countries for some time to come (see Annex 2). In addition to loans extended by mainland China in 1956 and 1958 for the construction of two textile mills, an interest-free loan of £30 million was given over a seven-year period of 1961-1967 by the same country for the purchases of capital goods as well as for technical assistance. Burma was to repay these loans in goods or in convertible currencies from 1971 to 1980. Burma and the Soviet Union in 1956 concluded an agreement whereby the latter between 1957 and 1963 would assist Burma in a variety of projects including the construction of a hospital, a stadium, a technological institute and a hotel. The total costs of the projects were estimated at $87.5 million, to be shared equally by both countries. The Soviet Union's contribution would be in terms of goods, design work and technical supervision, whereas the Burmese contribution would consist of local labour costs, building materials and Kyat 100 million worth of rice to be shipped over a twenty year period from 1963. Also in 1963, the Soviet Union agreed to grant a loan of $3.9 million for the construction of a reservoir, to be repaid over a period of thirty years.

50. Rice trade is a Government monopoly in Burma; the Union of Burma Agricultural Marketing Board, formerly known as the State Agricultural Marketing Board, conducts negotiations for sales of rice to all foreign buyers and is the sole exporter. Rubber and timbers are also government monopolies. Timber is exported solely by the State Timber Board. All exports of rubber were formerly handled by the Rubber Export Corporation which was under the control of the Commerce Development Corporation established in 1954. The Corporation also dealt with imports of a variety of consumer goods from all sources. The Rubber Export Corporation was liquidated in January 1961 and has been replaced by the Rubber Export and Development Corporation, a subsidiary organ of the Civil Stores Committee III, which assumed the functions of the Commerce Development Corporation.

51. Before 1957, imports from all sources, including the centrally-planned economies, were handled by both Government and private organizations. From 1957, Joint Venture Corporations were established for the purpose of bringing down the cost of living and encouraging Burmese nationals in both foreign and domestic trade. Burmese nationals were invited to subscribe the shares of the ventures, but the majority of the shares was held by the Government. As in the case of the Rubber Export Corporation, these Joint Venture Corporations were under the control of the Commerce Development Corporation and later the Civil Stores Committee III. In addition, other Government-owned firms were established and given import licences for consumer and industrial goods with monopolies in certain imports. For instance, the imports of foodstuffs, textiles and hardware were once a monopoly of the Joint Venture Corporations; the imports of pharmaceutical products were a monopoly of the State-owned Burma Drug House Limited. As stated in February 1963, the complete nationalization of the export and import trade is the Government's ultimate objective.

CEYLON

52. Ceylon's trade with the centrally-planned economies was on a limited scale until formal bilateral trade arrangements were effected; it was the decline in prices of its main export products that prompted Ceylon to enter into such arrangements. Ceylon's annual import requirement of rice placed heavy pressure on its export earnings, 85 per cent of which were derived from tea, rubber and coconuts. The instability in the export prices for these commodities, coupled with their unfavourable price relationship with imported rice, induced Ceylon to accept the offer of mainland China to pay premium prices for its rubber exports. It was a timely coincidence that mainland China was prepared to pay for rubber at premium prices, in view of the trade embargo imposed by other countries during the Korean War.

53. The early trade exchange between mainland China and Ceylon in 1951 and 1952 were on a commercial basis; the first agreement, a strict barter of rice...
for rubber, was signed only in December 1952. In these transactions, Ceylon paid for the Chinese rice considerably less than the world market price and the price received for rubber was, on the whole, above the average price received from other countries. Table 15 below shows that the difference between the price paid by mainland China and the average price obtained from other buyers was as high as 55 per cent in 1954. But in 1955 the situation was reversed, due to the following reasons. According to the barter agreement of December 1952, a price for rubber was fixed yearly for the entire year. As a result, the "premium" price fixed in October 1954 turned out to be lower than the world market price at the end of 1954 and early in 1955, when the world rubber market substantially improved. This created administrative difficulties for the Ceylon Government in procuring a sufficient quantity of rubber for export to mainland China during the period. In September 1955, Ceylon was able to negotiate for an amendment of the agreement to the effect that, from the second half of 1955, the price paid by mainland China for Ceylon rubber would vary according to Singapore price: the premium price paid by mainland China for Ceylon rubber became more stable than the world market price. 13

54. The need to pay premium prices for Ceylon rubber became less when the Federation of Malaya and Singapore relaxed their trade embargo against mainland China in 1956. Late in 1957, a new trade agreement was signed between mainland China and Ceylon for the further exchanges of rice and rubber without any premium. But, in order to cover administrative expenses, the Government was obliged to pay local dealers 1 cent per pound below the price paid by mainland China under the new agreement. Thus, there was no incentive for the dealers to sell for export to mainland China and, accordingly, the 1958 shipments to this destination dropped to less than half of the agreed quantity. To remedy this, an agreement was reached in June 1959 whereby mainland China would pay 5 cent per pound above the weekly average Singapore f.o.b. price. Still, the rubber export to mainland China from 1958 never reached the 1952-1957 level.

55. During the period of the first barter agreement (1953-1957), the balance of trade with mainland China was consistently in favour of Ceylon (Table 16). In order to liquidate part of the surplus, mainland China paid Ceylon in pounds sterling as well as in commodities for internal consumption of Ceylon. Moreover, Ceylon accepted imports of commodities from mainland China for re-export to third countries as a means of reducing the balance. 14 In 1957, these commodities included 1,000 long tons of peanut kernels and 200 kilograms of bismuth sub-carbonate. The Ceylonese Government managed to re-sell these goods in European and other markets. The surplus was somewhat reduced when the balance of trade was in favour of mainland China in 1958-1960. It should be noted that the second five-year barter agreement did not provide only for the exchange of rice for rubber as in the case of the first agreement; it also provided for exchanges of a variety of commodities. Consequently, Ceylon was able to export small quantities of coconut oil and copra to mainland China and mainland China in


<table>
<thead>
<tr>
<th>Year</th>
<th>Total centrally-planned economies</th>
<th>China (mainland)</th>
<th>Czechoslovakia</th>
<th>Eastern Germany</th>
<th>Hungary</th>
<th>Poland</th>
<th>Romania</th>
<th>USSR</th>
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<td>0.1</td>
<td>0.5</td>
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TABLE 14

Burma: Exports to and imports from centrally-planned economies, 1954-1962
(In millions of US dollars)

<table>
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<tr>
<th>Year</th>
<th>Total centrally-planned economies</th>
<th>China (mainland)</th>
<th>Czechoslovakia</th>
<th>Eastern Germany</th>
<th>Hungary</th>
<th>Poland</th>
<th>Romania</th>
<th>USSR</th>
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<td>0.5</td>
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<td>0.2</td>
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<td>32.7</td>
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<td>12.5</td>
<td>3.4</td>
<td>11.5</td>
<td>1.4</td>
<td>0.9</td>
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<td>8.8</td>
<td>31.3</td>
<td>3.0</td>
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<tr>
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<td>0.4</td>
<td>16.4</td>
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<tr>
<td>1959</td>
<td>14.1</td>
<td>34.8</td>
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<tr>
<td>1962</td>
<td></td>
<td>(Jan.-June) 20.9</td>
<td>16.5</td>
<td>13.2</td>
<td>12.3</td>
<td>1.3</td>
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TABLE 15

Ceylon: Price per pound of rubber, excluding latex, 1951-1957

<table>
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<tr>
<th>Year</th>
<th>Ceylon price to mainland China</th>
<th>Ceylon price to other countries</th>
<th>Singapore price RSS No. 1</th>
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<tr>
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<td>1.51</td>
</tr>
<tr>
<td>1957</td>
<td>1.51</td>
<td>1.34</td>
<td>1.38</td>
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* Predominantly high grade sheet rubber.
turn sold large quantities of foodstuffs, coal and manufactured goods, especially textiles, to Ceylon. Yet the volume of trade did not restore to the 1952 level. It should be further noted that, in lieu of the premium prices for rubber, the Government of Ceylon was to receive annually Rs. 15 million worth of goods from mainland China over the five-year period of the second barter agreement (1958-1962), so that the proceeds would be used in Ceylon’s rubber replanting subsidiary programme. However, it was reported that Ceylon began to import mainland Chinese goods granted under this aid agreement only towards the end of the agreement. When these agreements expired at the end of 1962, a new five-year trade and technical assistance agreement providing for a total value of Rs. 50 million granted in the form of grants and low-interest loans to Ceylon was concluded, that trade between the two countries rose to a significant level. The trade agreement was accompanied by a credit agreement extending a 12-year loan equivalent to SUS 28.5 million at a yearly interest of 2.5 per cent. Prior to this, it was reported that the Soviet Union had granted financial and technical assistance to Ceylon in the field of oil survey, in the establishment of a steel-rolling factory, in land clearance for sugar cane production and in the transportation field by giving buses, railway cars and road-building equipment.

57. Ceylon’s trade agreements with eastern European countries were on the basis of clearing accounts with swing credit. The balance in excess of the swing credit to be settled by increased delivery of goods in three months, after which it would be settled in transferable pounds sterling or other currencies to be agreed upon. Most-favoured-nation treatment was usually extended and many contracting parties, including Bulgaria, Hungary, Romania and the Soviet Union, agreed to support Ceylon’s policy of “Ceylonization” of foreign trade. Ceylon’s export to eastern Europe consisted mainly of rubber, and imports from eastern Europe included a variety of consumer goods, machinery and foodstuffs. In 1962, an appreciable quantity of petroleum products from the Soviet Union was shipped to Ceylon for the first time; this was partly responsible for a sharp increase of imports from the 1961 level.

58. Although the total volume of Ceylon’s exports to all the centrally-planned economies with which its trades rose rapidly, exports of individual commodities showed wide fluctuations from year to year. Table 18 shows that rubber exports to mainland China dropped sharply in 1958 after the first barter agreement expired at the end of 1957 and exports of tea to the Soviet Union and coconut oil to mainland China also showed an unsteady flow.

59. Although the centrally-planned economies offered grants and low-interest loans to Ceylon amounting to Rs. 373.8 million, less than half of the amount had been utilized as of July 1963.

### Table 16

#### Ceylon: Balance of trade with China (mainland), 1951-1962

<table>
<thead>
<tr>
<th>Year</th>
<th>Value (In millions of US dollars)</th>
<th>Percentage of total exports</th>
<th>Percentage of total imports</th>
<th>Trade balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>1951</td>
<td>10.88</td>
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<td>1.21</td>
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</tr>
<tr>
<td>1952</td>
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<td>1953</td>
<td>50.82</td>
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<td>43.89</td>
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<tr>
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<td>33.18</td>
<td>+13.44</td>
</tr>
<tr>
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<td>6.5</td>
<td>16.80</td>
<td>+8.61</td>
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<tr>
<td>1956</td>
<td>38.22</td>
<td>11.0</td>
<td>28.14</td>
<td>+10.08</td>
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<tr>
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<tr>
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<td>31.50</td>
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</tr>
<tr>
<td>1960</td>
<td>25.41</td>
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<td>27.72</td>
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<td>1961</td>
<td>17.43</td>
<td>4.9</td>
<td>7.35</td>
<td>+10.08</td>
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<tr>
<td>1962</td>
<td>27.93</td>
<td>7.5</td>
<td>8.61</td>
<td>+19.32</td>
</tr>
</tbody>
</table>

### Table 17

#### Ceylon: Trade with the Soviet Union and eastern Europe

<table>
<thead>
<tr>
<th>Year</th>
<th>Value (In millions of US dollars)</th>
<th>Percentage of total exports</th>
<th>Percentage of total imports</th>
<th>Trade balance</th>
</tr>
</thead>
<tbody>
<tr>
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<td>1.60</td>
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</tr>
<tr>
<td>1957</td>
<td>1.37</td>
<td>0.41</td>
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<td>-0.71</td>
</tr>
<tr>
<td>1958</td>
<td>5.19</td>
<td>1.49</td>
<td>1.83</td>
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</tr>
<tr>
<td>1959</td>
<td>5.73</td>
<td>1.56</td>
<td>4.91</td>
<td>+0.82</td>
</tr>
<tr>
<td>1960</td>
<td>11.68</td>
<td>3.04</td>
<td>4.49</td>
<td>+7.19</td>
</tr>
<tr>
<td>1961</td>
<td>15.29</td>
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<td>+5.36</td>
</tr>
<tr>
<td>1962</td>
<td>16.50</td>
<td>4.45</td>
<td>18.10</td>
<td>-1.6</td>
</tr>
</tbody>
</table>

### Table 17

#### Ceylon: Trade with the Soviet Union and eastern Europe

<table>
<thead>
<tr>
<th>Year</th>
<th>Value (In millions of US dollars)</th>
<th>Percentage of total exports</th>
<th>Percentage of total imports</th>
<th>Trade balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>1956</td>
<td>0.27</td>
<td>0.08</td>
<td>1.60</td>
<td>-1.33</td>
</tr>
<tr>
<td>1957</td>
<td>1.37</td>
<td>0.41</td>
<td>2.08</td>
<td>-0.71</td>
</tr>
<tr>
<td>1958</td>
<td>5.19</td>
<td>1.49</td>
<td>1.83</td>
<td>+3.36</td>
</tr>
<tr>
<td>1959</td>
<td>5.73</td>
<td>1.56</td>
<td>4.91</td>
<td>+0.82</td>
</tr>
<tr>
<td>1960</td>
<td>11.68</td>
<td>3.04</td>
<td>4.49</td>
<td>+7.19</td>
</tr>
<tr>
<td>1961</td>
<td>15.29</td>
<td>4.52</td>
<td>9.93</td>
<td>+5.36</td>
</tr>
<tr>
<td>1962</td>
<td>16.50</td>
<td>4.45</td>
<td>18.10</td>
<td>-1.6</td>
</tr>
</tbody>
</table>

60. Mainland China offered the largest financial assistance to Ceylon, but less than a quarter of the
### Table 18

Ceylon: Export volume of principal commodities to centrally-planned economies, 1956-1962

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Rubber</strong> (thousands of long tons)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>To all countries</td>
<td>86.8</td>
<td>94.0</td>
<td>90.4</td>
<td>92.0</td>
<td>104.7</td>
<td>88.1</td>
<td>100.2</td>
</tr>
<tr>
<td>To mainland China</td>
<td>54.7</td>
<td>50.1</td>
<td>23.6</td>
<td>23.2</td>
<td>38.3</td>
<td>19.0</td>
<td>36.8</td>
</tr>
<tr>
<td>To the USSR</td>
<td>—</td>
<td>—</td>
<td>2.2</td>
<td>7.2</td>
<td>8.8</td>
<td>13.6</td>
<td>2.2</td>
</tr>
<tr>
<td>To Poland</td>
<td>—</td>
<td>—</td>
<td>0.5</td>
<td>0.4</td>
<td>0.3</td>
<td>0.2</td>
<td>5.3</td>
</tr>
</tbody>
</table>

| **Tea** (thousands of pounds) |          |          |          |          |          |          |          |
| To all countries           | 348 129  | 367 732  | 410 773  | 383 495  | 409 784  | 425 721  | 451 633  |
| To the USSR                | —        | —        | 2 729    | —        | 749      | 319      | 5 733    |

| **Coconut oil** (thousands of metric tons) |          |          |          |          |          |          |          |
| To all countries            | 86.3     | 54.9     | 45.0     | 70.5     | 56.6     | 93.3     | 51.1     |
| To the USSR                 | —        | —        | 2.8      | 0.2      | —        | 10.3     | 9.7      |
| To eastern Europe           | —        | —        | 1.0      | 1.5      | 4.6      | 2.3      | 7.6      |

| **Copra** (thousands of metric tons) |          |          |          |          |          |          |          |
| To all countries             | 58.7     | 35.3     | 28.3     | 43.3     | 29.6     | 55.9     | 31.1*    |
| To mainland China            | —        | —        | —        | —        | 2.7      | —        | 10.8     |
| To eastern Europe            | —        | —        | —        | —        | —        | 0.6      | 1.9*     |

*January-June.

amount had been utilized up to July 1963. Of the Rs. 75 million offered for Ceylon’s rubber replanting scheme under the September 1957 agreement, only Rs. 32.3 million were used. The grant was given in the form of goods which included cotton textiles, cotton yarn, textile plants and transport equipment. Out of the Rs. 50 million credit extended under the September 1958 agreement, only Rs. 10.3 million were used and it was for the import of rice. The period for the utilization of the grant and loan under both agreements, due to expire at the end of 1962, was extended for another five-year period. Moreover, a new economic and technical aid agreement was signed in October 1962, under which mainland China offered additional aid valued at Rs. 50 million over a period of five years.

61. The credit given by the Soviet Union was originally to finance sixteen specific development projects; later, six projects were deleted from the list but the amount of credit remains Rs. 142.8 million, as determined under the February 1958 agreement. It was agreed in June 1962 that the unutilized portion of the credit would be for the importation of goods from the Soviet Union so that the proceeds would be used to finance the local currency costs of the projects. The nature and quantity of goods would be determined by mutual consent and prices would be on the basis of world market prices. Repayment of the loan would be in the form of Ceylon exports to the Soviet Union at world market prices or in convertible currency. Loans offered by the other centrally-planned economies are primarily for imports of capital goods. It should be noted that the credit agreement with Czechoslovakia only provides for basic terms, such as interest rate (3 per cent per annum) and period of repayment (four years), under which subsidiary contracts may be negotiated between Ceylon Government agencies or private importers and Czechoslovakia for shipments of capital goods on credit.\(^\text{15}\)

62. Ceylon’s trade with mainland China, either under commercial or clearing account arrangements, was handled by the Government or the Government’s Co-operative Wholesale Establishment, except early in 1958, when exports by private traders were allowed. All imports of rice and sugar, regardless of their source, had always been made by the Food Commissioner since the Government utilized profits from sugar imports for financing rice subsidy schemes. Rubber exports to mainland China were handled by the Controller of Rubber and later by the Commissioner of Commodity Purchase. Except for the imports of food which came under the control of the Food Commissioner, trade with eastern European countries was carried on privately but only registered Ceylonese traders were permitted to export to them under Government licences. From 1961, the Commissioner of Commodity Purchase was the sole exporter of rubber to Poland and from 1962 to Romania and Bulgaria as well.

### India

63. India offers one of the most interesting case studies on trade between developing market economies and the centrally planned economies. Formal trade relations between India and the centrally planned economies began in 1949 with the conclusion of trade arrangements with Hungary, followed in 1951 by agreements with mainland China and Poland. Trade and credit agreements with the Soviet Union and other eastern European countries except Albania

\(^{15}\) For further information, see Ceylon Ministry of Finance, *Foreign Economic Aid*, a review from 1950-62, presented to Parliament by the Minister of Finance on 26 July 1962.
were negotiated in the ensuing years. The rapid growth of trade with the centrally-planned economies took place during the period when India was implementing its first and second five-year plans (1951 through 1961); it was during this period that enormous pressure was placed on India’s foreign exchange resources. In the process of its determined struggle to expand trade, India had to seek new markets for its exports and look for new sources of capital goods imports that offered more liberal terms, placing the least burden on its dwindling foreign assets.

64. Table 19 shows the rapid rise of Indian trade with the centrally-planned economies, the proportion of which in the total trade of India increased from 0.9 per cent for export and 1.6 per cent for import in 1952-1953 to 9 per cent for export and 8 per cent for import in 1961-1962. It is noteworthy that, while the value of exports from India as a whole during the 1952-1962 period showed some fluctuations from year to year, total exports to the centrally-planned economies registered a rather steady increase. A sharp fall in foreign exchange payments for the goods was to be made in rupees or convertible pounds sterling “as may be mutually convenient”. Some variations were found in the agreement with Poland dated 6 January 1951, which provided for sterling payments only, and in the agreement with the Soviet Union of 2 December 1953,
requiring all payments in Indian rupees with balances, if any, convertible into pound sterling on demand. In all these agreements, no balancing of exports and imports was called for. No quotas were fixed for any commodity to be purchased in each year; the contracting Governments only had to "give, subject to the laws of the two countries, adequate facilities to import and export reasonable quantities of goods." India was to treat the contracting party as one of the countries in the "soft currency" group in respect of import and export licensing. Apparently the only elements of bilateralism were that separate accounts were kept for transactions with each of the centrally-planned economies at the Reserve Bank of India and that India would be classified and treated by the other party as one of the bilateral agreement countries (see Annex 2).

66. In 1958, when India's foreign exchange problems became more acute, payment arrangements in trade with the centrally-planned economies were revised to the effect that non-convertible Indian rupees were to be utilized to pay for all transactions and that bilateral balancing of export and import was required. But still there were no provisions for quotas, swing credit or periodic settlements. The agreements provided only for a final settlement to be made in terms of goods within six or twelve months after the termination of the agreements. After that, the settlement was to be made in pounds sterling or by other means as might be agreed upon. The exception to the above rules was the agreement with the Soviet Union of 16 November 1958, where no bilateral balancing was called for. It should be observed that the switch to payments in non-convertible rupees, according to the State Trading Corporation of India, led to the diversification and enlargement of India's trade with eastern European countries.

67. With the above terms of agreements, India was able to avert problems of non-convertibility such as unused credit balances and interruption of exports for the purpose of reducing the balances as faced by Burma, Ceylon and Indonesia. Bilateral trade arrangements were considered by India as having on the whole a net advantage by providing "a worthwhile outlet for the prices of these goods with those from other sources.

68. The financial assistance which India received from the Soviet Union to the end of 1962 amounted to $US 808.4 million, of which $US 806 million was in the form of loans and the balance in outright grants. The loans, bearing an annual interest of 2.5 per cent, were to assist in financing imports from the Soviet Union of equipment required for Indian development projects. Repayments, to be made over a period of up to twelve years, would be in Indian rupees to be used for purchases of Indian goods. Czechoslovakia, Poland and Romania also extended credit facilities to India for the construction of industrial and agricultural projects and a technical institute. The rate of interest was also at 2.5 per cent per annum and repayments were to be made over a period of seven or eight years in Indian rupees. These credits and loans contributed to a very significant expansion of India's imports from the centrally-planned economies during the period when the credits were being utilized. These imports would be matched over a period of years by India's exports, since the credits were repayable in the form of goods from India.

69. The State Trading Corporation of India Limited (STC), a State-owned joint stock company established in 1956, played a significant role in India's trade with the centrally-planned economies. While its main objective was to handle trade with State trading countries, it was also entrusted with the task of developing new export markets and stabilizing the prices and supplies of certain Indian commodities. The Corporation was granted the monopoly of import and export of certain commodities, of which bulk-contracting and handling could be advantageous or which were in short supply and presented peculiar problems of internal distribution. It had the exclusive right to export iron ore, salt and cement. The imports of caustic soda, soda ash, raw silk, tin and ball-bearings were exclusively conducted by STC. In addition, a large share of imports of certain commodities was channelled through STC for the purpose of arranging barter trade, to gain favourable terms or to stabilize internal price. These commodities included copper, zinc, lead, betel nuts, clove, cassia and copra.

70. STC handled from 3 to 5.6 per cent of India's total exports and 1.4 to 3 per cent of all imports during the fiscal years 1959/60 and 1961/62. The main export activities of STC was in metal ores, of which iron ore constituted the majority. Eastern Europe took about three-fifths of iron ore exported from India in 1956/57; the proportion was reduced to about one-third in 1960/61 and 1961/62. However, iron ore remained one of the largest export items of India to Czechoslovakia, eastern Germany, Hungary, Poland and Romania. Other Indian goods exported by STC to eastern Europe included cotton and woollen fabrics, shoes and tobacco. Eastern European goods imported by STC included capital goods, machine tools, non-ferrous metals and raw materials.

71. During the fiscal year 1961/62, STC arranged through its business associates imports from eastern European countries to the extent of about $84 million,
India: Exports to and imports from eastern European countries from 1960/61 to 1962/63°
(Value in millions of US dollars, quantity in thousands of units)

<table>
<thead>
<tr>
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<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Quantity</td>
<td>Value</td>
<td>Quantity</td>
<td>Value</td>
</tr>
<tr>
<td></td>
<td>(thousands)</td>
<td>(millions)</td>
<td>(thousands)</td>
<td>(millions)</td>
</tr>
<tr>
<td>1. Bulgaria</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Jute goods</td>
<td>Tons</td>
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<td>1.3</td>
<td>0.5</td>
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</tr>
<tr>
<td>(undressed)</td>
<td>&quot;</td>
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<tr>
<td>Cashew kernels</td>
<td>&quot;</td>
<td>37</td>
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<td>Groundnuts, including seeds</td>
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<td>39</td>
<td></td>
<td>40</td>
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<tr>
<td>Oil cakes</td>
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<tr>
<td>Coffee</td>
<td>Kilogrammes</td>
<td>65</td>
<td>0.1</td>
<td>223</td>
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<td>Pairs</td>
<td>4</td>
<td></td>
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</tr>
<tr>
<td>Tea</td>
<td>Kilogrammes</td>
<td>88</td>
<td>0.1</td>
<td></td>
</tr>
<tr>
<td>Leather, tanned or</td>
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<td></td>
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<tr>
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<td>2. Czechoslovakia</td>
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<td>Tons</td>
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</tr>
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<td>Jute goods</td>
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<td>(undressed)</td>
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<td>Groundnuts, including seeds</td>
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<td>677</td>
<td>1.7</td>
<td>864</td>
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<td>6</td>
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<td>Kilogrammes</td>
<td>128</td>
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<td>744</td>
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<td>65</td>
<td></td>
<td>305</td>
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<td></td>
<td></td>
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</tr>
<tr>
<td>mattings</td>
<td>&quot;</td>
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<td></td>
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<td>77</td>
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<td></td>
<td></td>
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<td>(tanned or dressed)</td>
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<td>5</td>
<td>0.1</td>
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<td>Manganese ore</td>
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<td>53</td>
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<td>30</td>
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<tr>
<td>Iron ore and</td>
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<td></td>
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</tr>
<tr>
<td>concentrates</td>
<td>&quot;</td>
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<td>8.3</td>
<td>806</td>
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<td>Kilogrammes</td>
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<td>Linseed oil</td>
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</tr>
<tr>
<td>purposes</td>
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<td>24</td>
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<td>126</td>
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<td></td>
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<tr>
<td>Cashew kernels</td>
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<td>Pairs</td>
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<td>5</td>
</tr>
<tr>
<td>Iron ore and</td>
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<td>concentrates</td>
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<td>81</td>
<td>0.9</td>
<td>18</td>
</tr>
<tr>
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<td>Kilogrammes</td>
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<td>755</td>
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<td>Pepper</td>
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<td>348</td>
<td>0.5</td>
<td>282</td>
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<td>Tobacco, unmanufactured</td>
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<td>Essential oils</td>
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<tr>
<td>Cotton fabrics</td>
<td>Metres</td>
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<td>Animal hair</td>
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<td>4. Hungary</td>
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</tr>
<tr>
<td>Jute goods</td>
<td>Tons</td>
<td>2.2</td>
<td>1.1</td>
<td>7</td>
</tr>
<tr>
<td>Hides and skins,</td>
<td>Kilogrammes</td>
<td>62</td>
<td>0.2</td>
<td>48</td>
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<tr>
<td>(undressed)</td>
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<tr>
<td>Oil cakes</td>
<td>Tons</td>
<td>0.3</td>
<td></td>
<td>43</td>
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<tr>
<td>Coffee</td>
<td>Kilogrammes</td>
<td>51</td>
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<td>---------------------</td>
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<tr>
<td></td>
<td>Value</td>
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<td>4. Hungary (continued)</td>
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<tr>
<td>Coir fibre and yarn</td>
<td>Kilogrammes 120</td>
<td>600</td>
<td>1516</td>
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</tr>
<tr>
<td>Tea</td>
<td>Kilogrammes 82</td>
<td>82</td>
<td>217</td>
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</tr>
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<td>Iron ore and concentrates</td>
<td>Tons 49</td>
<td>6.0</td>
<td>45</td>
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</tr>
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<td>Mica</td>
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<td>30</td>
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<tr>
<td>Pepper</td>
<td>Kilogrammes 239</td>
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<td>517</td>
<td></td>
</tr>
<tr>
<td>Tobacco, unmanufactured</td>
<td>Tons 11</td>
<td>358</td>
<td>1167</td>
<td></td>
</tr>
<tr>
<td>Cotton raw</td>
<td>Kilogrammes 306</td>
<td>0.1</td>
<td>943</td>
<td></td>
</tr>
<tr>
<td>Cotton waste</td>
<td>Kilogrammes 1269</td>
<td>0.5</td>
<td>2047</td>
<td></td>
</tr>
<tr>
<td>5. Poland</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Jute raw</td>
<td>Tons 12</td>
<td>1</td>
<td>26</td>
<td></td>
</tr>
<tr>
<td>Jute goods</td>
<td>Tons 12</td>
<td>1</td>
<td>26</td>
<td></td>
</tr>
<tr>
<td>Hides and skins, including fur skins (undressed)</td>
<td>Kilogrammes 289</td>
<td>0.7</td>
<td>328</td>
<td>0.8</td>
</tr>
<tr>
<td>Cashew kernels</td>
<td>Kilogrammes 146</td>
<td>0.1</td>
<td>147</td>
<td>0.1</td>
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<tr>
<td>Groundnuts, including seeds</td>
<td>Tons 4</td>
<td>1.0</td>
<td>4</td>
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<td>Oil cakes</td>
<td>Tons 38</td>
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<td>1.6</td>
<td></td>
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<tr>
<td>Coffee</td>
<td>Kilogrammes 287</td>
<td>0.2</td>
<td>1491</td>
<td></td>
</tr>
<tr>
<td>Coir fibre and yarn</td>
<td>Kilogrammes 287</td>
<td>0.2</td>
<td>1491</td>
<td></td>
</tr>
<tr>
<td>Tea</td>
<td>Kilogrammes 287</td>
<td>0.2</td>
<td>1491</td>
<td></td>
</tr>
<tr>
<td>Manganese ore</td>
<td>Tons 124</td>
<td>1.4</td>
<td>105</td>
<td></td>
</tr>
<tr>
<td>Iron ore and concentrates</td>
<td>Tons 252</td>
<td>0.8</td>
<td>110</td>
<td></td>
</tr>
<tr>
<td>Mica</td>
<td>Kilogrammes 914</td>
<td>0.3</td>
<td>1602</td>
<td></td>
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<tr>
<td>Pepper</td>
<td>Kilogrammes 295</td>
<td>0.3</td>
<td>707</td>
<td></td>
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<tr>
<td>Bones for manufacturing purposes</td>
<td>Kilogrammes 331</td>
<td>0.1</td>
<td>346</td>
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<tr>
<td>Tobacco, unmanufactured</td>
<td>Kilogrammes 358</td>
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<td>490</td>
<td></td>
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<tr>
<td>Cotton waste</td>
<td>Kilogrammes 188</td>
<td>0.1</td>
<td>288</td>
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<tr>
<td>6. Romania</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Jute goods</td>
<td>Tons 0.4</td>
<td>0.1</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>Shellac</td>
<td>Kilogrammes 136</td>
<td>0.1</td>
<td>164</td>
<td></td>
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<tr>
<td>Hides and skins, including fur skins (undressed)</td>
<td>Kilogrammes 133</td>
<td>0.4</td>
<td>344</td>
<td>0.8</td>
</tr>
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<td>Iron ore and concentrates</td>
<td>Tons 63</td>
<td>0.7</td>
<td>426</td>
<td></td>
</tr>
<tr>
<td>Mica</td>
<td>Kilogrammes 10</td>
<td>0.1</td>
<td>43</td>
<td></td>
</tr>
<tr>
<td>Pepper</td>
<td>Kilogrammes 935</td>
<td>1.0</td>
<td>117</td>
<td></td>
</tr>
<tr>
<td>Cotton twist and yarn</td>
<td>Kilogrammes 192</td>
<td>0.2</td>
<td>242</td>
<td></td>
</tr>
<tr>
<td>7. USSR</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Jute goods</td>
<td>Tons 22</td>
<td>7.7</td>
<td>11.9</td>
<td></td>
</tr>
<tr>
<td>Hides and skins, including fur skins (undressed)</td>
<td>Kilogrammes 5 650</td>
<td>9.2</td>
<td>4 177</td>
<td>5.1</td>
</tr>
<tr>
<td>Cashew kernels</td>
<td>Kilogrammes 4 160</td>
<td>4.7</td>
<td>5 175</td>
<td></td>
</tr>
<tr>
<td>Coffee</td>
<td>Kilogrammes 2 360</td>
<td>2.1</td>
<td>2 261</td>
<td></td>
</tr>
<tr>
<td>Tea</td>
<td>Kilogrammes 635</td>
<td>0.3</td>
<td>565</td>
<td></td>
</tr>
<tr>
<td>Wool raw</td>
<td>Kilogrammes 454</td>
<td>2.6</td>
<td>360</td>
<td></td>
</tr>
<tr>
<td>Mica</td>
<td>Kilogrammes 729</td>
<td>5.1</td>
<td>1229</td>
<td></td>
</tr>
<tr>
<td>Castor oil</td>
<td>Kilogrammes 4 918</td>
<td>5.1</td>
<td>2 962</td>
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</tr>
<tr>
<td>Pepper</td>
<td>Kilogrammes 74</td>
<td>0.4</td>
<td>126</td>
<td></td>
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<tr>
<td>Cardamoms</td>
<td>Kilogrammes 4 463</td>
<td>1.4</td>
<td>17 003</td>
<td></td>
</tr>
<tr>
<td>Essential oils</td>
<td>Kilogrammes 1 755</td>
<td>0.9</td>
<td>2 047</td>
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</tr>
</tbody>
</table>

TRADE BETWEEN ECAFE COUNTRIES AND CENTRALLY-PLANNED ECONOMIES

TABLE 20 (continued)

4. Hungary (continued)

5. Poland

6. Romania

7. USSR

---
<table>
<thead>
<tr>
<th></th>
<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Bulgaria</strong></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Chemical elements and compounds</td>
<td>0.8</td>
<td>0.6</td>
<td>2.1</td>
</tr>
<tr>
<td>Medicinal and pharmaceutical products</td>
<td>...</td>
<td>...</td>
<td>...</td>
</tr>
<tr>
<td>Electric machinery</td>
<td>0.3</td>
<td>0.3</td>
<td>0.5</td>
</tr>
<tr>
<td>Professional scientific and controlling instruments</td>
<td>...</td>
<td>0.1</td>
<td>0.1</td>
</tr>
<tr>
<td>Iron and steel</td>
<td>...</td>
<td>1.1</td>
<td>1.8</td>
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<td><strong>Czechoslovakia</strong></td>
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<tr>
<td>Chemical elements and compounds</td>
<td>0.8</td>
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<td>1.4</td>
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<tr>
<td>Medicinal and pharmaceutical products</td>
<td>0.4</td>
<td>0.3</td>
<td>0.4</td>
</tr>
<tr>
<td>Electric machinery</td>
<td>2.1</td>
<td>3.5</td>
<td>4.0</td>
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<tr>
<td>Iron and steel</td>
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<td>Rubber manufactures</td>
<td>0.6</td>
<td>0.2</td>
<td>0.1</td>
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<tr>
<td>Paper, paper board and manufactures</td>
<td>0.2</td>
<td>0.1</td>
<td>0.1</td>
</tr>
<tr>
<td>Non-metallic manufactures</td>
<td>0.5</td>
<td>0.6</td>
<td>0.5</td>
</tr>
<tr>
<td>Metal manufactures</td>
<td>0.3</td>
<td>0.5</td>
<td>0.5</td>
</tr>
<tr>
<td>Machinery other than electric</td>
<td>88.6</td>
<td>19.0</td>
<td>24.6</td>
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<td>0.9</td>
<td>0.6</td>
</tr>
<tr>
<td>Textile yarn, fabrics, manufactures, etc.</td>
<td>0.1</td>
<td>0.2</td>
<td>0.1</td>
</tr>
<tr>
<td><strong>Germany, Eastern</strong></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Chemical elements and compounds</td>
<td>0.5</td>
<td>1.1</td>
<td>1.2</td>
</tr>
<tr>
<td>Electric machinery</td>
<td>0.3</td>
<td>0.7</td>
<td>1.0</td>
</tr>
<tr>
<td>Professional scientific and controlling instruments</td>
<td>1.8</td>
<td>2.4</td>
<td>3.6</td>
</tr>
<tr>
<td>Paper, paper board and manufactures</td>
<td>0.1</td>
<td>0.1</td>
<td>0.1</td>
</tr>
<tr>
<td>Non-metallic manufactures</td>
<td>0.2</td>
<td>0.3</td>
<td>0.7</td>
</tr>
<tr>
<td>Machinery, other than electric</td>
<td>2.2</td>
<td>4.5</td>
<td>5.8</td>
</tr>
<tr>
<td>Textile yarn, fabrics, manufactures, etc.</td>
<td>0.1</td>
<td>0.1</td>
<td>0.1</td>
</tr>
<tr>
<td>Fertilizers, manufactured</td>
<td>1.3</td>
<td>2.1</td>
<td>2.8</td>
</tr>
<tr>
<td><strong>Hungary</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Electric elements and compounds</td>
<td>0.1</td>
<td>0.9</td>
<td>0.1</td>
</tr>
<tr>
<td>Medicinal and pharmaceutical products</td>
<td>0.4</td>
<td>0.4</td>
<td>0.3</td>
</tr>
<tr>
<td>Electric machinery</td>
<td>0.4</td>
<td>0.7</td>
<td>0.6</td>
</tr>
<tr>
<td>Iron and steel</td>
<td>1.4</td>
<td>5.9</td>
<td>1.4</td>
</tr>
<tr>
<td>Paper, paper board and manufactures</td>
<td>0.1</td>
<td>1.4</td>
<td>...</td>
</tr>
<tr>
<td>Metal manufactures</td>
<td>0.1</td>
<td>...</td>
<td>...</td>
</tr>
<tr>
<td>Machinery, other than electric</td>
<td>1.3</td>
<td>1.1</td>
<td>1.1</td>
</tr>
<tr>
<td>Textile yarn, fabrics, manufactures, etc.</td>
<td>0.3</td>
<td>0.1</td>
<td>0.1</td>
</tr>
<tr>
<td>Dyeing, tanning and colouring materials</td>
<td>...</td>
<td>0.2</td>
<td>0.3</td>
</tr>
<tr>
<td><strong>Poland</strong></td>
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<td></td>
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<tr>
<td>Chemical elements and compounds</td>
<td>0.3</td>
<td>1.4</td>
<td>1.7</td>
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<tr>
<td>Medicinal and pharmaceutical products</td>
<td>0.2</td>
<td>0.1</td>
<td>0.4</td>
</tr>
<tr>
<td>Electric machinery</td>
<td>0.3</td>
<td>0.5</td>
<td>0.9</td>
</tr>
<tr>
<td>Iron and steel</td>
<td>2.0</td>
<td>7.9</td>
<td>3.6</td>
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<td>Rubber manufactures</td>
<td>0.6</td>
<td>1.0</td>
<td>...</td>
</tr>
<tr>
<td>Paper, paper board and manufactures</td>
<td>0.7</td>
<td>0.7</td>
<td>1.1</td>
</tr>
<tr>
<td>Metal manufactures</td>
<td>0.1</td>
<td>0.1</td>
<td>0.3</td>
</tr>
<tr>
<td>Machinery, other than electric</td>
<td>2.8</td>
<td>2.7</td>
<td>4.7</td>
</tr>
<tr>
<td>Transport equipment</td>
<td>1.2</td>
<td>1.4</td>
<td>1.7</td>
</tr>
<tr>
<td>Dyeing, tanning and colouring materials</td>
<td>0.3</td>
<td>0.5</td>
<td>0.4</td>
</tr>
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<td><strong>Romania</strong></td>
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<td>Chemical elements and compounds</td>
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<td>3.0</td>
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<tr>
<td>Electric machinery</td>
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<td>1.6</td>
<td>...</td>
</tr>
<tr>
<td>Iron and steel</td>
<td>2.4</td>
<td>1.4</td>
<td>...</td>
</tr>
<tr>
<td>Paper, paper board and manufactures</td>
<td>0.3</td>
<td>0.2</td>
<td>...</td>
</tr>
<tr>
<td>Metal manufactures</td>
<td>0.6</td>
<td>0.3</td>
<td>...</td>
</tr>
<tr>
<td>Machinery, other than electric</td>
<td>4.9</td>
<td>3.1</td>
<td>1.7</td>
</tr>
<tr>
<td>Transport equipment</td>
<td>...</td>
<td>0.9</td>
<td>...</td>
</tr>
<tr>
<td>Dyeing, tanning and colouring materials</td>
<td>0.2</td>
<td>0.2</td>
<td>0.2</td>
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</tbody>
</table>
TRADE BETWEEN ECAFE COUNTRIES AND CENTRALLY-PLANNED ECONOMIES

TABLE 20 (continued)

<table>
<thead>
<tr>
<th>Commodity</th>
<th>Value (million US dollars)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chemical elements and compounds</td>
<td>0.6</td>
</tr>
<tr>
<td>Electric machinery</td>
<td>2.0</td>
</tr>
<tr>
<td>Zinc</td>
<td>1.1</td>
</tr>
<tr>
<td>Iron and steel</td>
<td>11.8</td>
</tr>
<tr>
<td>Tin</td>
<td>1.4</td>
</tr>
<tr>
<td>Aluminium</td>
<td>0.5</td>
</tr>
<tr>
<td>Paper, paper board and manufactures</td>
<td>2.2</td>
</tr>
<tr>
<td>Non-metallic manufactures</td>
<td>0.2</td>
</tr>
<tr>
<td>Metal manufactures</td>
<td>1.3</td>
</tr>
<tr>
<td>Machinery, other than electric</td>
<td>6.2</td>
</tr>
<tr>
<td>Transport equipment</td>
<td>0.1</td>
</tr>
<tr>
<td>Fertilizers, manufactured</td>
<td>2.2</td>
</tr>
<tr>
<td>Dyeing, tanning and colouring materials</td>
<td>0.1</td>
</tr>
<tr>
<td>Petroleum and products</td>
<td>0.3</td>
</tr>
</tbody>
</table>

* Fiscal year ending 31 March.

representing about 54 per cent of India's total imports from eastern Europe. However, from the information available, the volume of trade with eastern Europe and other centrally-planned economies that was actually negotiated and transacted by STC was not ascertainable.

TABLE 21
India: Exports to and imports from China (mainland) 1960/61

<table>
<thead>
<tr>
<th>Commodities</th>
<th>Value (million US dollars)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Exports</td>
<td></td>
</tr>
<tr>
<td>Crude fertilizers and crude minerals, excluding coal, petroleum and precious stones</td>
<td>0.9</td>
</tr>
<tr>
<td>Animal and vegetable crude materials</td>
<td>1.2</td>
</tr>
<tr>
<td>Mineral fuels, lubricants and related materials</td>
<td>0.5</td>
</tr>
<tr>
<td>Essential oils and perfume materials, toilet, polishing and cleansing preparations</td>
<td>0.1</td>
</tr>
<tr>
<td>Textile yarn, fabrics, made-up articles and related products</td>
<td>8.3</td>
</tr>
<tr>
<td>Imports</td>
<td></td>
</tr>
<tr>
<td>Coffee, tea, cocoa, spices and manufactures thereof</td>
<td>0.6</td>
</tr>
<tr>
<td>Inedible crude materials except fuels</td>
<td>0.5</td>
</tr>
<tr>
<td>Chemicals</td>
<td>1.0</td>
</tr>
<tr>
<td>Paper, paper board and manufactures thereof</td>
<td>1.0</td>
</tr>
<tr>
<td>Other manufactured goods</td>
<td>1.2</td>
</tr>
<tr>
<td>Machinery and transport equipment</td>
<td>0.4</td>
</tr>
</tbody>
</table>

* Fiscal year ending 31 March 1961.

72. STC concluded long-term agreements with Czechoslovakia, Eastern Germany, Poland, Romania, as well as Japan and Yugoslavia for the delivery of large quantities of iron ore. It also entered into a number of barter agreements linking exports of various Indian commodities with imports of capital goods, foodstuffs and raw materials with the centrally-planned economies as well as with the commercial firms in western European and African countries.

INDONESIA

73. As in the case of Ceylon, rubber was an economic attraction, from the point of view of the centrally-planned economies, to enter into trade arrangements with Indonesia. Poland was the first country of them to establish formal trade relations with Indonesia and it was through Poland that certain other centrally-planned economies obtained rubber from Indonesia for several years. Indonesia did not conclude formal trade agreements with mainland China until early 1954 and, in the case of the Soviet Union, until 1956. The Soviet Union had offered to buy Indonesian rubber under various favourable terms since 1952, but no sales had been realized until after 1956. Once formal trade relations were established between Indonesia and other centrally planned economies, rubber exports to these countries rose sharply, while purchases by Poland virtually ceased (Table 22).

74. Rubber constituted over 90 per cent of Indonesian exports to the centrally-planned economies; copra, pepper, hard fibres, sugar, and palm oil accounted for most of the balance. The quantity of rubber bought by the centrally-planned economies almost tripled in the four years from 1957 to 1961 and their share in the total exports of Indonesian rubber rose from 7 per cent in 1957 to 20 per cent in 1961. About 33 to 45 per cent of Indonesia’s export earnings were derived from rubber.

75. Under the bilateral agreements between Indonesia and the centrally-planned economies which were not of a barter type, the price paid for Indonesian rubber was to be about 10 per cent above world price. As to imports, Indonesia's agreements did not strictly require Indonesia to import a specified quantity or value of goods from the centrally-planned economies. The quotas, where they were included in the agreements, were merely meant as a guarantee on the part of the Government to issue licences up to the specified amount.
24. The agreement with mainland China dated 4 January concluded up till 1955 with Bulgaria, Czechoslovakia, settlements by clearing accounts with a small amount varied by country and with time. The system of planned economies consisted of machinery, textiles economies consisted largely of manufactured goods for the same purpose. But the Indonesian Government was determined to conduct its trade with the centrally-planned economies on a multilateral basis and when new payments agreements were reached from July 1956 to 1957 with Czechoslovakia, Eastern Germany, Hungary, Poland and Romania, settlements by convertible currencies were provided for in the place of clearing accounts. North Korea, North Viet-Nam and the Soviet Union, which entered into trade and payments agreements with Indonesia in 1956 and 1957, also accepted settlement in convertible currencies without clearing accounts. It is interesting to note that, under the agreement with Czechoslovakia dated 26 July 1955, not only were the payments to be made in pounds sterling, but also there was a provision that multilateral transactions were to be permitted. In a later agreement with the same country dated

76. Indonesia's imports from the centrally-planned economies consisted largely of manufactured goods and foodstuffs. The more industrialized Eastern European countries—namely, Czechoslovakia, Eastern Germany and the Soviet Union—supplied heavy and light machinery, construction materials, transport equipment and vehicles as well as a variety of consumer goods. Exports from the Asian centrally-planned economies consisted of machinery, textiles and foodstuffs such as dried and salted fish. Indonesia's much needed commodity—namely, rice—was not supplied by the centrally-planned economies to Indonesia in appreciable volume until 1958 (Table 24).

77. The payment methods under Indonesia's agreements with the centrally-planned economies varied by country and with time. The system of settlement by clearing accounts with a small amount of swing credit was prescribed in the agreements concluded up till 1955 with Bulgaria, Czechoslovakia, Eastern Germany, Hungary, Poland and Romania.21 The agreement with mainland China dated 4 January 1954 was the only one that called for settlements in convertible currencies without clearing accounts, but it was soon changed to be under clearing accounts from 1 August 1954 and it remained as such ever since.

78. In 1955 and 1956, sentiments against bilateralism were expressed and difficulties in trading

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21 In 1954-1955, the amount of swing credit was reportedly as follows: Czechoslovakia: £6 million; mainland China: £600,000; Eastern Germany: £150,000; Hungary: £19,000; Poland: £200,000; Romania: £200,000.

22 Prime Minister Harahap, in a speech before the Indonesian Parliament on 24 October 1955, mentioned that Indonesian raw materials were re-exported by eastern European countries to third countries and that Indonesia's direct exports had thus to compete with its own goods, also that Indonesian exports to eastern Europe received low prices, while imports from these countries were obtained at increasing prices. The Indonesian Foreign Ministry announced in mid-1956 that trade agreements with Bulgaria, Czechoslovakia, Eastern Germany, Hungary and Poland were not satisfactory since Indonesia received only non-transferable credit. See also Bank of Indonesia Annual Report of 1955/56, pp. 114-115.
TABLE 23
Indonesia: Exports to and imports from centrally-planned economies, 1953-1961
(In millions of US dollars)

<table>
<thead>
<tr>
<th>Year</th>
<th>Bulgaria</th>
<th>China (mainland)</th>
<th>Czechoslovakia</th>
<th>Eastern Germany</th>
<th>Hungary</th>
<th>Poland</th>
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TABLE 24
Indonesia: Imports of selected commodities from centrally-planned economies, 1957-1961

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<th>Eastern Germany</th>
<th>Hungary</th>
<th>Poland</th>
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Source: FAO Commodity Reports, Rice Nos. 12 and 13, and Statistical Pocket Book of Indonesia, 1961, Buro Pusat Statistik, Jakarta.

17 November 1956, re-exports to third countries were allowed under surveillance of a joint committee. However, the system of settlement by clearing accounts was re-instituted in a new trade and payments agreement dated 9 May 1958 between Czechoslovakia and Indonesia.

79. Despite the revision of payment arrangements, trade between Indonesia and most eastern European countries remained small and fluctuating from year to year (Table 23). From 1958, Indonesia's trade with mainland China and the Soviet Union rose perceptibly: there were increased exports of Indonesian rubber and imports of rice from mainland China and the Soviet Union. The conclusion of credit agreements between Indonesia and mainland China, the Soviet Union and other eastern European countries from 1956 contributed in no small measure to the expanded trade (see Annex 2). Imports of rice and textiles from mainland China were partly financed by a special loan of 48 million Swiss franc extended by mainland China in 1958. The loan carried an interest of 2.5 per cent per annum and was repayable over a period of ten years. Other credit facilities granted by mainland China, Czechoslovakia, Hungary, Poland and the Soviet Union, were mainly for financing development projects. Most of them carried an interest of 2.5 per cent per annum and were repayable over a period of twelve years, but no information regarding the modes of repayment is available.

80. In Indonesia, there was no Government organization which was exclusively responsible for conducting trade with the centrally-planned economies, but a number of State trading organizations handled imports and exports and had the monopoly of certain commodities.

81. All imports of rice were handled by the JUBM or Jajasen Urusan Bahan Makanan (Food Foundation), which also purchased and guaranteed the minimum price of domestic rice. Imports of other commodities were conducted by other Government agencies as well as private traders. There was a Central Purchasing Office under the Directorate of Trade in the Ministry of Economic Affairs which made the purchases for various government departments. These purchases were made on the basis of tenders. Then there was a government-owned Central Trading Company of Indonesia engaging in both import
and export. The principal export commodities dealt in were rubber, coffee, tea, sugar and copra. No information was available on the scale of the Company's operations. Until 1959, the Company had no monopoly rights in respect of any item of export and import, but competed with private trade. Another State-owned organization was the Central Copra Co-operatives or Induk Koperasi Koperasi Kopra Indonesia (IKKI) which handled about two-thirds of all copra exports from Indonesia in 1957-1958.

82. Early in 1959, when a certain group of foreign firms ceased to operate in Indonesia, the Government established six new State trading organizations. From 1961, all State trading organizations came under the control of the General Management Board of State Trading Enterprises or Badan Pimpinan Umum Perusahaan Dagang Negara (BPU-PDN), which supervised and co-ordinated their activities. Six State-owned corporations dealt with both imports and exports, while three dealt with imports only. From the second quarter of 1959, imports of essential goods, which constituted about 50-60 per cent of total imports value, became a Government monopoly and could be effected only through certain State enterprises. These commodities included raw cotton, yarn, textiles, paper, cement, reinforced iron bars, tin plate, gunny-bags, wheat flour, rice, fertilizers, cambrics and cloves. Government control over exports was believed to be less than over imports. Tin and bauxite from Government mines were exported solely through State enterprises, while IKKI handled all copra exports since 1959.

ANNEX 1

Additional statistics on trade of developing ECAFE countries with the centrally-planned economies.

**Table 1**

Afghanistan: Exports and imports of selected commodities by countries of destination and origin, 1958-1961

*(Value in thousands of US dollars)*

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<th>Commodity</th>
<th>Unit of quantity</th>
<th>Total quantity (thousand)</th>
<th>Total value</th>
<th>Countries of destination or origin (in value)</th>
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*Calendar year begins 21 March.

### Table 2

| ECAFE countries: Exports of principal primary commodities by destination, 1959-1961 |
|---|---|---|---|---|---|---|---|
| | Total quantity | Total value | Mainland China | USSR | eastern Europe | Western Europe | USA | Japan |
| **Burma** | | | | | | | | |
| Rice | 1959 | 1 699.7 | 153.0 | 3.4 | 4.2 | 4.3 | — | 3.0 |
| | 1960 | 1 749.4 | 147.8 | 0.9 | 4.9 | 4.5 | 2.1 | 5.0 |
| | 1961 | 1 591.3 | 146.8 | 35.2 | — | 6.1 | 1.6 | — | 1.1 |
| Rubber | 1959 | 11.7 | 7.6 | 0.2 | 0.6 | 1.4 | 3.5 | 1.0 | 0.3 |
| | 1960 | 10.6 | 8.7 | 5.1 | — | — | 2.7 | — | 0.1 |
| | 1961 | 10.2 | 5.9 | 1.4 | — | — | 3.6 | — | — |
| Cotton | 1959 | 11.7 | 4.6 | — | — | 2.8 | 1.7 | — | — |
| | 1960 | 15.9 | 7.8 | 1.2 | — | — | 3.7 | 2.7 | — |
| | 1961 | 11.5 | 5.9 | — | — | 0.2 | 2.3 | 0.5 | 1.7 |
| **Cambodia** | | | | | | | | |
| Rice | 1959 | 211.1 | 20.3 | — | — | 0.8 | 10.6 | — | 0.3 |
| | 1960 | 326.5 | 20.8 | 0.7 | — | 2.0 | 8.1 | — | 0.2 |
| | 1961 | 240.0 | 22.4 | — | — | 1.4 | 10.6 | — | — |
| Rubber | 1959 | 38.3 | 22.6 | — | — | 0.2 | 6.0 | 15.0 | 0.4 |
| | 1960 | 40.5 | 27.9 | — | 3.1 | 14.4 | 7.8 | 0.2 | |
| | 1961 | 36.0 | 20.4 | — | 0.7 | 13.9 | 4.2 | 0.6 | |
### Table 2 (continued)

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## Thailand

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ANNEX 2

Agreements on trade and payments, as well as technical and financial assistance agreements, concluded between the centrally-planned economies and developing ECAFE countries and Japan, in force from 1950 to date.

(Due to limited time and limited availability of published data, the information contained herein is not necessarily complete. It will be appreciated if member and associate member Governments will kindly supply supplementary information to the ECAFE secretariat.)

CONTRACTING PARTY AND SCOPE OF AGREEMENTS

Afghanistan

1. Mainland China
   A one-year trade agreement was signed on 28 July 1957 and was extended from year to year.
   *Afghanistan* to supply asafoetida, sesame, linseed, wool, sheep and goat skins, dried fruits, etc.
   *Mainland China* to supply tea, leather goods, bicycles, silk and cotton piecegoods, construction materials, machinery, electrical equipment, etc.

2. Czechoslovakia
   A four-year trade agreement accompanied by credit and payments arrangement was signed on 22 August 1954. Lists of commodities to be exchanged were included in the agreement which envisaged a total value of trade of $US 2.08 million each way. Payments were to be made through clearing accounts with a swing credit equivalent to 10 per cent of the commodity trade payable in pounds sterling. Under the credit arrangement, Czechoslovakia was to supply asafoetida, sesame, linseed, wool, sheep and goat skins, dried fruits, etc.
   *Poland’s exports:* machinery, electrical equipment, etc.
   *Afghanistan’s exports:* cotton, wool, hides and skins, ceramics, textiles and footwear.

3. Czechoslovakia
   A trade and payments agreement signed on 8 November 1962 provided for:
   *Afghanistan’s exports:* cotton, wool, hides and skins.
   *Czechoslovakia’s exports:* machinery, vehicles and parts, ceramics, textiles and footwear.

4. Poland
   A three-year trade and payments agreement was signed on 4 August 1956.
   *Afghanistan’s exports:* cotton, wool, hides, flax, sesame oil, etc.
   *Poland’s exports:* machinery, automobiles, tractors, cement, porcelain, glasses, chemicals, pharmaceutical products, textiles, etc.

5. Poland
   A trade and payments agreement concluded between the two countries was valid up to the end of 1963.
   *Afghanistan’s exports:* cotton, oilseeds, hides, wool, dried fruits, etc.
   *Poland’s exports:* industrial plants, machinery, footwear, textiles and chemicals.

6. USSR
   A trade and payments agreement was signed in 1954 to replace the earlier agreement of 15 August 1948. The agreement was initially valid for a period of four years (1 July 1959-30 June 1954). It envisaged a total value of trade of $US 30 million both ways. Commodity lists were exchanged. No quotas were stipulated. Swing credit was stated at $US 200,000. The agreement was extended twice to be valid until 30 June 1956. Payments were to be made through two clearing accounts in US dollars. Settlement could be made in US dollars or gold.

7. USSR
   An agreement was signed on 28 January 1956 under which the Soviet Union extended credit of $100 million to Afghanistan in the form of equipment for development. The loan carried an interest of 2 per cent per annum and was to be repaid in the form of goods in twenty-two equal instalments. Repayments were to begin eight years after receipt of the equipment.

8. USSR
   A protocol (assumed to be under the agreement of July 1950) was signed, valid for the period 1 January 1956 to 31 December 1958. The protocol envisaged barter trade with a swing credit of $US 200,000.

9. USSR
   A one-year agreement signed on 13 February 1958 provided for:
   *Afghanistan’s exports:* cotton, wool, lamb skins, fruits and spices, etc.; and
   *USSR’s exports:* light industrial goods, communication equipment, petroleum products, cotton fabrics and sugar.

10. USSR
    A technical assistance agreement was signed in 1958. The USSR was to provide equipment and technical assistance for the construction of the Salang Road linking Kabul with the northern provinces of Afghanistan.

11. USSR
    A credit agreement signed on 19 January 1959 provided for the Soviet credit equivalent to $22 million for financing the Jalalabad irrigation and power project on the Kabul River in East Afghanistan.
    On 6 March 1960, an agreement was concluded whereby the USSR granted 50,000 tons of wheat. A similar grant of 40,000 tons of wheat was made by the Soviet Union in the previous year.

12. USSR
    Another trade accord was signed on 27 April 1959.
    *Afghanistan’s exports:* wool, cotton, leather, oilseeds and dried fruit.
    *USSR’s exports:* sugar, motor vehicles, petroleum, rolled ferrous metals, cotton goods and other equipment.

Burma

1. Bulgaria
   A trade and payments agreement was signed on 16 May 1956. The first year protocol calling for exports of Burmese rice of 20,000 tons at Kyat 466 per ton. The agreement was terminated by Burma on 12 July 1957, after which trade
Burma (continued)

was conducted on the basis of transferable sterling. A new agreement calling for a Kyat 19 million exchange in 1958 was signed in November 1957.

Burma’s exports: rice, maize, cotton, tungsten.

Bulgaria’s exports: machinery, electrical equipment, textiles, fruit preserves, chemicals, cement and drugs.

2. Mainland China

The first three-year trade and payments agreement concluded by the two countries became effective from 22 April 1954, followed by an exchange of protocol each year. Payments arrangements were made through a clearing account and the difference settled in sterling until March 1957, after which the sales were made on cash basis only.

Burma: the bulk of sales was in rice of 150,000 to 200,000 tons per year. Each year a protocol was exchanged to stipulate the exact quantity and price. Other exports from Burma were minerals, rubber and other raw materials.

China (mainland) to supply coal, steel, textiles and other light industrial products. (A contract signed on 18 May 1957 called for Burmese exports of 50,000 tons of rice to be paid in sterling.)

3. Mainland China

The second trade and payments agreement was signed on 21 February 1958. No details were given but it was believed that the conditions were unchanged.

4. Mainland China

In January 1958, mainland China agreed to build a textile mill in Burma at the cost of Kyat 19.2 million on credit. Prior to this, mainland China had agreed to help Burma build a textile mill with over 20,000 spindles and almost 200 looms in 1956. The second mill that mainland China agreed to build would be with 40,000 spindles.

5. Mainland China

A trade agreement was signed on 27 January 1961 and was valid for five years.

Burma’s exports: rice and rice products, foodstuffs, beans and pulses, salt, potatoes, oil cakes, refined pig lead, zinc concentrates, wolfram, tin, copper, silver, teak and hardwood, rubber, raw cotton (short staple).

Mainland China’s exports: machinery, scientific instruments, electrical goods and apparatus, steel products, chemicals, coal, cement, cotton yarn, cotton textiles, silk and silk textiles, tea, chinaware, paper, canned goods, tyres and tubes, handicrafts, pharmaceuticals, etc.

Payments arrangements: Payments were to be made under an open account system stipulated under the payments agreement signed between the two countries on 9 January 1961.

6. Mainland China

A credit agreement concluded in January 1961 provided for a Chinese interest-free loan of £30 million for economic development during October 1961 to September 1967. It was agreed by the end of 1961 that the loan was to be utilized for the supply of complete sets of equipment and materials as well as for technical assistance in various projects including a cotton-spinning and weaving mill, a paper mill, two sugar mills, two plywood factories, two hydro-electric plants, two bridges, a machine-tool plant, a steel-rolling mill and road construction in Wa State. Repayment was to be made in goods or in a third-country currency during 1971-1980.

7. Czechoslovakia

A three-year trade and payments agreement was signed on 14 February 1955 calling for the exchange of Burmese rice, fodder, rubber, wolfram, lead concentrates and other products for Czech capital goods, machinery and light industrial products. The value of both exports and imports was placed at Kyat 40 million. The quantity of rice for 1955 was set at 24,000 tons. A protocol signed on 17 November 1955 called for a shipment of 100,000 tons. A contract of 5000 tons at Kyat 2.6 million was signed in July 1957 and an agreement in the third quarter called for a shipment of 40,000 tons as well as 24,000 tons through the clearing account. As of October 1957 the clearing account was still in effect, but no specific rice deliveries were required.

8. Czechoslovakia

A new trade agreement was signed on 20 February 1961 and valid for one year with a clause for automatic renewal each year. The transaction was to be on cash basis. No other information is available.

9. Czechoslovakia and USSR

A tripartite clearing agreement signed on 9 October 1956 defined convertibility of the currencies of USSR and Czechoslovakia in trade with Burma and provided for the imports from Czechoslovakia of Kyat $3 million to be paid for by the credit balance created by Burma’s export of rice to the USSR. A similar agreement was signed on 28 April 1958.

10. Eastern Germany

A three-year trade and payments agreement and first protocol, signed on 27 July 1955, called for an exchange of Eastern German machinery, transport equipment, optical instruments and others, for Burmese rice and raw materials. Eastern Germany agreed to buy at least Kyat 40 million worth of rice each year for three years. A subsequent protocol specified shipments of 50,000 long tons at Kyat 497 a ton.

11. Eastern Germany

A three-year trade agreement, signed on 15 July 1958, provided for payments in transferable pounds sterling. It was extended for a further period of three years by an exchange of letters on 14 March 1961.

Burma’s exports: rice and rice products, tin, wolfram, silver, teak.

Eastern Germany’s exports: machinery, electrical goods, trucks, motor-cycles, medicine, chemical products and paper.

12. Hungary

A one-year trade and payments agreement and protocol were signed on 21 February 1955. The clearing account was presumably still in effect after March 1957, and on 5 March 1957 the agreement was extended to December 1957.

Hungary was to supply a long list of machinery and consumer goods and agreed to buy at least Kyat 40 million worth of rice each year for three years. The protocol dated 5 May 1956 called for rice exports of 50,000 to 70,000 tons at Kyat 466 per ton between July 1955 to June 1956.

13. Hungary

A trade agreement signed on 11 March 1958 provided for payments in transferable pounds sterling.

Burma’s exports: rice and rice products, timber, metal and ore.

Hungary’s exports: machinery, electrical goods, vehicles and textiles.
14. Democratic Republic of Korea

Letters were exchanged on 2 October 1957 stating the desire to promote trade and each Government would station trade delegation in the capital of the other country.

Burma's exports: rice and rice products, beans and pulses, rubber and ginned cotton.

North Korea's exports: equipment machinery, rolled steel products, chemicals, foodstuffs, porcelain-ware, silk and cotton textiles and nylon goods.

15. Democratic Republic of Korea

A trade agreement was signed on 26 January 1961 and valid for three years.

Burma's exports: rice and rice products, beans and pulses, rubber and ginned cotton.

North Korea's exports: equipment machinery, rolled steel products, chemicals, foodstuffs, porcelain-ware, silk and cotton textiles and nylon goods.

16. Poland

A three-year trade and payments agreement was signed on 1 November 1955. A protocol signed at the same time provided for a shipment of 50,000 to 60,000 tons of rice at Kyat 466 per ton for delivery in 1956. On 10 June 1957, the agreement was terminated eighteen months before its expiration with settlement in sterling cash.

Burma's exports: rice, rubber and raw materials.

Poland's exports: machinery, sea and river ships, cars and other capital goods.

17. Poland

A trade agreement was signed on 20 November 1959 and its validity was extended to the end of 1963.

Burma's exports: rice, maize, cotton, tea, rattan and bamboo.

Poland's exports: coal, hardware, building materials, household goods, machinery and plant, vehicles, timbered provisions and foodstuffs, toilet requisites, photographic materials for medical purposes, chemicals, electrical goods and apparatus, radio spare parts, sewing machines and spares parts, toys, tyres and tubes, pipes for gardens, rubber pipes, cotton and silk textiles, stationery, newsprint and other kinds of paper.

18. Romania

A three-year trade and payments agreement was signed on 7 February 1956. Later the agreement was revised to last only one year from April 1956. It was revived by an exchange of letters on 23 September 1959 after which transactions would be on a cash basis. The validity was extended until 31 December 1962.

The first-year protocol included the shipment of 20,000 tons of Burmese rice at Kyat 466 per ton in return for equipment for oil drilling and mining, machine tools, building machinery, engines, tractors, oil and consumer goods.

19. Romania and Czechoslovakia

A tripartite agreement was reached on 18 March 1958 whereby an entire outstanding balance in favour of Burma in Burma-Romania clearing account would be transferred to Burma-Czechoslovakia clearing account.

20. USSR

This three-year trade and payments agreement signed on 1 July 1955 was the first concluded between the two countries. It provided for most-favoured-nation treatment and no quotas. On 1 April 1956, both countries agreed for a two-year extension, prolonging the agreement to 1960. Again the agreement was extended to 30 June 1963.

Burma's exports: rice (150,000 to 200,000 tons), beans, pulses, oil cakes, non-ferrous metals, hardwood, rubber, etc.

USSR's exports: equipment for rice mills, cotton cleaning mills, textile factories, and hydro-electric power stations, tractors and agricultural machines, automobiles, electro-technical equipment, telecommunication equipment, excavators, pumps and compressors, printing equipment, metal-working machines and tools, motorcycles and bicycles, photo and cinema equipment, newsprint, cement, rolled ferrous metal shapes, chemical goods and medicines and medical equipment.

Payments to be made in pounds sterling.

21. USSR

In April 1956, an agreement for the mutual exchange of "gifts" was negotiated. The USSR, between 1957 and 1963, agreed to give Burma a technological institute, laboratories, technical training, a hospital, a theatre, a stadium, a conference hall, an exhibition hall and a hotel with restaurant, including the use of Soviet technicians. The cost (Kyat 420 million) was to be shared equally by both Governments. Burma agreed to ship Kyat 100 million worth of rice over a twenty-year period beginning 1963 as its contribution. An agreement of 17 January 1957 setting up the conditions for the construction of the "gifts" to Burma was set out in a contract signed on 29 August 1957, specifying construction over a six-year period. Burma was to supply local labour and building materials, while the USSR undertook the design work, technical supervision and necessary machinery.

22. USSR

In January 1958, the USSR agreed to lend Burma Kyat 33.6 million in roubles at 2.5 per cent interest to build two irrigation dams (to be repaid in twelve years) and a farm implement factory (to be repaid in five years). The loan however was cancelled by Burma in March 1958, due to the shortage of counterpart funds to be raised by Burma.

23. USSR

A loan agreement was signed on 30 August 1963, providing a Soviet loan of 3.3 million roubles ($3.9 million) for the construction of a reservoir at Kyet Mauk Taung. The loan was to be used both for services of Soviet engineers and for the supply of machinery and equipment. Repayment was to be made over a period of thirty years.

Cambodia

A trade agreement and a payments agreement, both signed on 24 April 1956, stipulated a total trade of £5 million each way. The agreements were valid for one year and defined the principle of balancing imports and exports between the two countries. It was, inter alia, stipulated that either party might suspend imports from or exports to the other if the debit balance of one country should exceed £1 million and that in case, during the course of one-half year, one of the accounts showed a debit balance after clearance of more than £1 million, the outstanding part should be cleared immediately by the debtor upon the creditor's demand. The agreements were effective from 1 June 1956 to 31 May 1957, and were extended to 31 May 1958.

Cambodia's exports: rubber, maize, rice and rice products, lumber, tobacco, dried fish, etc.

Mainland China's exports: cotton-spinning machinery, lathes, electric generators and motors and other machinery, construction materials, steel, silk, caustic soda, sodium carbonate, cotton fabrics and yarn and foodstuffs.
Cambodia (continued)

2. Czechoslovakia

A trade agreement was signed on 6 October 1956.

Cambodia's exports: rubber, corn, pepper, soybean, rice, hides and other agricultural products.

Czechoslovakia's exports: industrial equipment and machinery, transportation equipment, food products, textiles and various consumer goods.

A separate payments agreement was signed on the same day to cover transactions under the above trade agreement.

3. Czechoslovakia

A technical co-operation agreement dated 6 October 1956 provided for a scientific and technical co-operation programme (exchange of technicians, grant of scholarship to students and trainees, and the supply of industrial and scientific equipment and technical information).

4. Poland

A one-year trade and payments arrangement was signed on 17 December 1957.

Total value of trade: £700,000 each way.

Cambodia's exports: rice and rice products, red maize, pepper, kapok, wood and other forest products, hides, tobacco and other agricultural commodities excluding rubber.

Poland's exports: heavy equipment and machinery, textiles, leather goods and rubber shoes.

Payments were to be cleared through two accounts kept in each other's name by the National Bank of Poland and the National Bank of Cambodia with sterling as the unit of account. The arrangement also provided for an overdraft of £140,000; any amount in excess of this sum was payable in kind over a six-month period. Any amount that still remained due after this period was to be settled in either sterling or any other currency mutually agreed upon. The agreement was protected by an exchange guarantee. Any amount still owed when the agreement expired was to be settled in kind over a twelve-month period. If the amount was still due at the end of that period, it was to be settled immediately in sterling or any other currency mutually agreed upon.

5. North Viet-Nam

A trade and payments agreement was signed on 19 November 1958. No details are available.

Ceylon

1. Bulgaria

A one-year trade and payments agreement was signed on 19 June 1956.

Ceylon's exports: tea, rubber, desiccated coconut, coconut oil, copra, graphite, coir fibre, coir yarn, spices, etc.

Bulgaria's exports: machinery, plate glass, sugar, flour, chemicals, etc.

Payments: Bulgaria through sales of its goods in Ceylon was to build up credit to pay for its purchases of Ceylonese goods. Purchases in excess of this credit were to be paid in free currency. Balances in the clearing account were transferable to clearing accounts maintained by either contracting party with third countries, and vice versa.

2. Bulgaria

Another trade and payments agreement was signed on 15 May 1961. It was valid for one year and automatically extended unless terminated. Ceylon agreed that a Bulgarian commercial office be opened in Colombo and Bulgaria agreed to support the “Ceylonization” policy by encouraging the appointment of Ceylonese agents for Bulgarian goods. It also provided for most-favoured-nation treatment.

Ceylon's exports: same as the 1956 agreement described above.

Bulgaria's exports: machinery, electrical installations, cables, cement, asbestos, textiles, chemicals, pharmaceuticals, sugar, iron and steel manufactures.

Payments arrangements: the agreement provided for a reciprocal swing credit of £40,000.

3. Mainland China

A five-year agreement was signed in December 1952. Ceylon agreed to import 270,000 tons of rice against the exports of 50,000 tons of rubber each year at prices to be negotiated yearly. Prices of rubber were to be based on the Singapore price plus an agreed premium.

4. Mainland China

An agreement, valid for five years from 1 January 1958, was signed on 19 September 1957. It provided for most-favoured-nation treatment principle of import-export balancing and the conclusion of protocol each year to specify the total value of trade. The agreement also provided for an exchange of 50,000 tons of Ceylonese rubber against 200,000 tons of rice. In lieu of premium prices for rubber as in the case of the previous agreement of 1952, Ceylon was to receive $15,800,000 worth of goods from mainland China over the period of five years. The proceeds would be a grant to Ceylon for the use of its Rubber Replanting Subsidy Programme. It was agreed subsequently in yearly-exchanged protocols that the quantity of rubber would be 30,000 tons yearly from 1958, except for 1960, the quantity of rubber was 17,000 tons against 160,000 tons of rice. In addition to the exchange of rubber for rice, Ceylon exports were to include pepper, coconut oil, copra, precious and semi-precious stones. Mainland China's exports were also to include steel, machinery, scientific instruments, building materials, chemicals, coal, foodstuffs, silk and silk fabric and handicraft products.

5. Mainland China

A credit agreement dated 17 September 1958 provided a loan of Rs. 50 million ($10.5 million) from mainland China in the form of equipment, materials and other supplies required by Ceylon. The loan was to be granted in four annual installments from 1958. It carried an interest of 2 per cent per annum and was repayable in ten equal annual installments from 1961 either in the currency of a third country agreed upon by both parties or in exports from Ceylon to mainland China.

6. Mainland China

Another trade agreement was signed in 1961 providing a total value of trade of $21 million each way.

Ceylon was to supply 31,000 metric tons of sheet rubber.

Mainland China was to supply 200,000 long tons of rice.

7. Mainland China

A contract was concluded in 1961 whereby Ceylon was to import goods valued at Rs. 15 million ($US 3.15 million) against credit provided by a previous agreement dated 19 September 1957.

The goods included railway passenger cars, baggage vans and wagons.

8. Mainland China

An accord was signed in 1961 for Ceylon's purchases of cotton textile plant valued at Rs. 75 million ($15.8 million) against Chinese credit provided under an agreement of 1957.
Ceylon (continued)

9. Mainland China

A trade and payments agreement, valid for five years from 1 January 1963, was signed on 3 October 1962.

Ceylon's exports: rubber, pepper, coconut oil, copra, precious and semi-precious stones, etc.

Mainland China's exports: rice, steel, machinery, scientific instruments, building materials, chemicals, coal, foodstuffs, silk and silk piecegoods, handicrafts, etc.

Payments: to be made in rupees. Balance to be settled periodically in sterling or any other mutually acceptable currency.

10. Mainland China

An agreement on economic and technical co-operation between the two countries was signed on 3 October 1962. The agreement provided for the grant of economic and technical aid by China to the value of Rs. 50 million over five years beginning 1 January 1963. The grant was to be in the form of goods.

11. Czechoslovakia

A trade agreement, valid for one year, was signed on 16 December 1955. The main provisions of the agreement were the mutual extension of most-favoured-nation treatment and the acknowledgement by the Czech Government of the Ceylon Government's policy of "Ceylonization". Each-way trade under the agreement was envisaged to be about £2 million per annum.

Ceylon's exports: tea, rubber, fresh coconuts, desiccated coconut, coconut oil, copra, graphite, coconut fibre and coir yarn, etc.

Czechoslovakia's exports: machinery of all kinds, motor cars and cycles, cement and other building materials, heavy equipment and hardware, paper, glassware and chemicals, etc.

Payments: A payments agreement, valid for one year, was concluded between the two countries on 13 March 1956. The parties agreed to allow a reciprocal non-interest bearing swing credit of £500,000 sterling. The balance in excess of swing credit would be settled within three months by increased deliveries of goods. At the end of this three-month period any balance in excess of the swing was to be paid immediately at the request of the creditor party. At the end of this six-month period, any outstanding balance was to be settled immediately in pounds sterling or any other currency on which the two contracting parties might agree.

The payments agreement was subsequently extended up to 16 June 1958.

11(a). Czechoslovakia

On 16 August 1956, an agreement was signed with the Government of the Czechoslovakian Socialist Republic for economic co-operation with Ceylon. The agreement provides for certain credit terms on which capital goods could be purchased from Czechoslovakia on specific subsidiary agreements being entered into between the two countries. The terms of this credit are available to the private sector as well. The general terms on which contracts could be negotiated are as follows:

(a) 10 per cent of the f.o.b. value payable within twenty days of the signing of the contract;
(b) 25 per cent of the f.o.b. value payable on presentation of shipping documents;
(c) 15 per cent of the f.o.b. value payable on satisfactory installation of plant and machinery supplied;
(d) 50 per cent of the f.o.b. value payable in eight half-yearly equal instalments commencing one year from the date of last payment made under (b) above.

Credits granted under the agreement will carry interest at 3 per cent, free of any Ceylon taxes, on the unpaid instalments due.

Among the major contracts signed under this agreement are those for the supply of machinery and equipment for the Kantalai Sugar Factory amounting to £914,800 (Rs. 12,197,333), materials, machinery and diesel generating sets for five tile factories costing £179,560 (Rs. 2,394,133) and the construction of a shoe factory for the Leather Corporation at a cost of £63,256 (Rs. 843,413).

A contract was signed by the National Textile Corporation with KOVO, a Czechoslovak corporation, for the supply of textile weaving equipment for the proposed textile mill at Veyangoda at a total cost of £203,379 (Rs. 2,711,720).

12. Czechoslovakia

A revised trade and payments agreement was signed on 14 December 1957 and came into force after ratification in 1958. The new agreement was to remain in force for an unlimited period of time subject to cancellation if notice was given by either party as provided in the agreement.

13. Eastern Germany

A trade accord was signed on 22 April 1961.

Ceylon's exports: tea, rubber, coconut products, etc.

Eastern Germany's exports: textile machinery, building and mining industries, locomotives, water-purifying equipment, power plants, electrical equipment, chemicals, fertilizers, textiles and other consumer goods.

14. Hungary

A trade agreement signed on 4 June 1956 provided for most-favoured-nation treatment and was valid until the end of 1961. Hungary recognized the Ceylon Government's policy of "Ceylonization" and agreed to encourage the appointment of Ceylonese agents in support of the policy.

Ceylon's exports: tea, rubber, coconuts, coconut oil, graphite, spices and coir fibres.

Hungary's exports: wheat flour, sugar, sugar mill equipment, industrial and agricultural machinery, electrical goods, diesel locomotives, motor vehicles and textiles.

15. Hungary

A protocol to the trade agreement of 4 June 1956 and a new payments agreement were concluded on 12 September 1961. The protocol, among other things, clarified the most-favoured-nation clause contained in the original agreement and provided for economic and technical co-operation between the two countries. The payments agreement provided for a reciprocal swing credit of £40,000. Both agreements were initially valid for one year with provision for automatic extension.

16. North Korea

A trade agreement was signed on 23 February 1962. The agreement was valid initially for one year.

Ceylon's exports: tea, rubber, coconut products, spices, essential oils, graphite, handicrafts, kapok, etc.

North Korea's exports: agricultural machinery, machine tools, electric motors and transformers, complete factories, chemical products, medicinal herbs, arts and handicrafts, dried fish, canned goods and fertilizers.

Payments: to be made in sterling.
Ceylon (continued)

17. Poland

A trade agreement and a payments agreement were signed on 2 December 1955. Both the agreements were valid for one year and could be terminated at the request of either party upon ninety days' notice. Both agreements were subsequently extended up to 27 March 1958.

Under the trade agreement both governments agreed to the mutual extension of most-favoured-nation treatment. The Polish Government recognized the policy of "Ceylonization" of the Ceylon Government and agreed to appoint Ceylonese agents for goods of Polish origin.

Ceylon's exports: tea, fresh coconuts, desiccated coconut, coconut oil, copra, rubber and fibre, etc.

Poland's exports: sugar, cement, iron and steel goods, ships, coal, machinery and textiles, etc.

Payments agreement: The parties agreed to a reciprocal swing credit of £400,000. If this limit was exceeded by either party, the debtor party would endeavour to settle the excess within three months by the sale of goods acceptable to the creditor party. If the excess were not settled at the end of this period, it was to be settled forthwith in transferable pounds sterling or in any other mutually acceptable currency. At the end of the agreement, the accounts of both contracting parties were to be balanced and the debtor party was to be given six months to settle the final debt by the delivery of goods acceptable to the creditor party. Any balance left after that period was to be settled immediately by the debtor party in pounds sterling or in any other mutually acceptable currency.

18. Poland

A trade and payments agreement, revising the swing limit under the agreement of 2 December 1955, was signed in November 1959. The new agreement reduced the former swing limit of £400,000 by £100,000. A schedule of goods that could be exchanged between the two countries was also listed. (Letters were also exchanged on scientific and technical co-operation between the two countries.)

19. Poland

An agreement signed in 1961 provided for Ceylon's exports against Poland's shipment of 40,000 tons of white sugar.

20. Romania

A one-year trade agreement and a payments agreement were signed on 15 March 1956. The trade agreement embodied provisions in regard to the non-discriminatory treatment of the import and export trade between the two countries and recognition by the Romanian Government of the Ceylon Government's policy of "Ceylonization". A total value of trade was stipulated at £1 million each way, with a swing credit of £100,000 and final settlement in pounds sterling or in any other currency to be agreed upon.

Ceylon's exports: tea, rubber, coconut oil, copra, coconut fibre, graphite, cocoa beans, spices, etc.

Romania's exports: machinery, cement, cement factory, electrical equipment, window glass, plywood chests, wheat flour, newsprint, paper, textiles, etc.

21. USSR

A trade and payments agreement was signed on 8 February 1958 and valid for one year, but renewable automatically unless either party gave notice of termination. A credit of $840,000 was extended each way, with balances over this amount to be settled within thirty days.

Ceylon's exports: tea, rubber, coconut oil, copra, desiccated coconut, coconut fibre, coir and coir products, citronella oil, spices, etc.

USSR's exports: petroleum products, rolled iron and steel products, chemicals, chemical fertilizers, cement, sawn timber, cellulose, cotton textiles, machinery and equipment of various types, and other commodities.

22. USSR

A credit agreement was concluded on 8 February 1958 for the extension of SUS 28,500,000 (equivalent) over a twelve-year term at 2.5 per cent interest per annum. The credit was to finance sixteen different projects, including river basin development, tyre and tube plants, flour milling and grain elevators, fishing industry, prefabricated-housing factory, and equipment for science-teaching laboratories for secondary schools.

23. USSR

A loan agreement concluded in 1961 provided for a Soviet loan of Rs. 142 million ($29.8 million) against Ceylon's purchases of machinery, construction materials and work drawings for the first stage of an iron and steel works, and machinery and equipment for other projects. The loan carried an interest of 2½ per cent per annum and was repayable in twelve annual instalments.

24. USSR

A trade agreement was concluded on 22 February 1962 and valid for three years from 1 January 1962. The deliveries under the agreement were to be effected according to the provision of the trade and payments agreement of 8 February 1958.

Ceylon's exports: tea, rubber, coconut oil, copra and other products.

USSR's exports: iron and steel products, petroleum and petroleum products, tin plate, chemicals, cement, flour, sugar, fertilizers, etc.

25. North Viet-Nam

A trade agreement was signed on 7 March 1958. The only detail available is that North Viet-Nam was to supply 5000 tons of rice to Ceylon.

India

1. Bulgaria

Letters were exchanged on 17 June 1953 embodying a trade agreement which was valid from 1 June 1953 to 31 December 1954. Both Governments agreed to exchange reasonable quantities of goods listed in attached schedules. Imports of goods from Bulgaria would be treated on the same footing as from any other country in the currency group to which Bulgaria might belong. The agreement was renewed up to 31 December 1955.

Exports from India: tea, spices, lac, essential oil, castor oil, raw wool, raw cotton, coir yarn, sisal ropes, drugs, bees-wax, electric wire and cables, electric lamps, fishing tackle, bamboo fishing poles and rods and gum tragacanth.

Exports from Bulgaria: fruits, tiles, carbides, urea, electro-motors (fractional h.p. motors d.c. and others of over 50 h.p.), electric insulators, trashling machine, pneumatic hammers, "Universal" milling machines, planing machines and concrete mixers.

Payments: No mention was made in the agreement.

2. Bulgaria

A trade and payments agreement, valid for three years up to 31 December 1959, was signed on 18 April 1956.

Exports from India: iron and manganese ores, lac, tea, coffee, tobacco, spices, hides and skins, oil and oil seeds, raw cotton, cotton waste, jute manufactures, sports goods, handicrafts and cottage industry products, etc.
Exports from Bulgaria: machinery, chemicals, paints, drugs and medicines, electrical instruments, machinery equipment, diesel engines, etc.

Letters were exchanged on 20 June 1957, revising for 1957 the commodity schedules attached to the 18 April 1956 trade and payments agreement. The revised schedules included such new items as:

Exports from India: cigars and cigarettes, cashew-nuts, cashew kernels and oil, tapioca and tapioca products, silk and rayon textiles and manufactures, plastic goods, hardware, paints and lacquers, etc.

Exports from Bulgaria: ferrous metals and products, alloy ribbons and complete plants.

The commodity schedules were further modified and extended through 1958 by an exchange of letters on 20 May 1958. The revised schedules included:

Exports from India: tea, coffee, spices, unmanufactured tobacco, hydrogenated vegetable oil (edible), lac including shellac, cotton (raw and waste), wool (raw and waste), drugs and medicines, bicycles and parts, coir yarn and manufactures, sports goods, etc.

Exports from Bulgaria: drugs and medicines including penicillin, chemicals, electrical instruments, machinery equipment, metal-working machines, diesel engines, radio sets, cement, stationery, etc.

Payments were to be made in Indian rupees.

A protocol was subsequently signed on 18 May 1959 amending the payments provisions. Under the revised arrangement, payments were to be made in non-transferable Indian rupees. Upon the expiry of the agreement, the balance was to be settled in goods during the coming six months or in such other way as might be agreed upon.

3. Bulgaria

A trade and payments agreement between India and Bulgaria was signed on 3 March 1960. The agreement came into effect from 1 January 1960 and was originally valid for a period of three years. It has since been extended for a period of one year ending 31 December 1963. Most-favoured-nation treatment was mutually extended to each other's imports and exports and to ships calling at each other's ports.

Exports from India: black pepper, tea, coffee, vegetable and essential oils, chemicals, jute manufactures, processed hides, tanned and semi-tanned goat skins and salted goat skins, leather manufactures including footwear, cotton textiles, pig iron, etc.

Exports from Bulgaria: machinery equipment and spare parts, electric generators, electric motors, power cables, diesel mine locomotives, chemical fertilizers, pharmaceutical products, etc.

Payments in non-convertible Indian rupees. Any balance left after the expiry of the agreement would be settled in goods during the ensuing twelve months or, after the expiry of that period, in such a way as might be agreed upon.

4. China (mainland)

Two barter agreements were concluded during 1951, the first for the supply of 56,000 tons of Chinese rice against jute goods and cotton from India; the second for the exchange of 200,000 tons of soybeans, bean cakes, wheat and rice from China against 500,000 bales (400 pieces per bale) of Indian gunny bags.

A barter agreement was signed on 15 October 1952 for the supply of 50,000 tons of Chinese rice to India against certain Indian goods.

6. China (mainland)

A trade agreement, valid for two years, was signed on 14 October 1954. The agreement was extended for a further period up to the end of 1958.

Exports from India: rice, tobacco, metallic ores including chrome, manganese, tin and zinc concentrates, oils, chemicals, drugs and medicines, electrical and other apparatus, machinery, machine tools, ferrous and non-ferrous manufactures, bicycles, motor vehicles, cement, tyres and tubes, pumps, lanterns, sewing machines, agricultural implements, mica, films, etc.

Exports from mainland China: rice, soybeans, machinery, medical supplies, antimony, graphite, fluorspar, arsenolite, silk and silk piece-goods, wool, hides and skins, paper, newsprint, chemicals, tung oil, cassia, menthol crystals, resins, porcelain, glass and glassware, hosiery and stitching needles, vegetables and vegetable products, canned goods, printed matters, books and films.

The agreement was extended up to the end of 1958 and included such exchange of commodities as:

Exports from India: tobacco, cotton, shellac, jute manufactures, spices, mica, medicines, and medicinal herbs, etc.

Exports from mainland China: metals, ores, newsprint, chemicals and chemical preparations, silk, cassia, etc.

Payments to be made in Indian rupees or pounds sterling. Rupee balance was to be convertible in pounds sterling upon demand. Letters exchanged on 25 May 1957 extending the validity of the agreement up to the end of 1958 envisaged payments in rupees with balance at the end to be convertible in pounds sterling.

7. China (mainland)

An agreement was signed on 28 August 1956 under which China was to sell to India 60,000 tons of rice against payment in Indian rupees to be used by China for purchases of Indian goods.

8. China (mainland)

A trade agreement was signed in May 1958 between mainland China and the State Trading Corporation of India. The agreement was valid for the period May to October 1958 and envisaged a trade turnover of Rs. 25 million each way.

Exports from India: cotton, pepper, tobacco and sandalwood.

Exports from mainland China: caustic soda, ash, newsprint, calcium carbide and other industrial raw materials.

9. Czechoslovakia

A trade agreement was signed on 17 November 1953, valid for one year up to the end of 1954. It was extended to 30 September 1957.

Exports from India: tea, spices, tobacco, iron and manganese ores, cashew-nuts, vegetable and essential oils, shellac, mica and handicrafts.

Exports from Czechoslovakia: marine-type diesel engines, machinery for shoe-making, rubber manufactures, tanning and woodworking, hydraulic presses, paper, newsprint, tractors and agricultural machinery, textiles, automobile equipment, motor cycles and diesel locomotives.

Payments were to be made in Indian rupees or pounds sterling, as might be mutually convenient.

10. Czechoslovakia

A trade and payments agreement was signed on 30 September 1957. It was valid from 1 October 1957 to 31 December 1960.

Exports from India: ores, spices, skins, vegetable oils, cashew-nuts, tea, coffee, textiles (cotton, rayon and
woollen), plastic goods, sports goods, coir products, jute manufactures, linoleum, leather goods, cigars and cigarettes, handloom fabrics, handicrafts, films, etc.

Exports from Czechoslovakia: machinery, machine tools, diesel generating sets, marine-type diesel engines, agricultural tractors, textile machinery, paper and newsprint, dyestuffs, cameras and appliances, domestic hardware, abrasive materials, narrow-gauge diesel locomotives, films, etc.

Payments were to be made in rupees with balance at the end convertible into pounds sterling. A protocol was subsequently signed on 30 May 1959 amending the payments provisions. The revised arrangement provided for payment in non-convertible Indian rupees. The balance, if any, left after the expiry of the agreement was to be settled in goods during the ensuing year or after the lapse of the period in pounds sterling.

11. Czechoslovakia

An eight-year economic and credit agreement was signed on 29 November 1959 under which Czechoslovakia granted India a loan equivalent to Rs. 231 million ($48.5 million) for industrial plants. The supplies to be made by Czechoslovakia against the loan included machinery and equipment for a foundry forge plant, a heavy machinery-building plant, a heavy electrical plant, and for other projects included in India's Third Five-Year Plan. The loan carried an interest of 2½ per cent per annum and was repayable in eight equal annual instalments in Indian rupees, to be utilized by Czechoslovakia for purchases of such Indian goods as pig iron, chemicals, engineering goods, non-ferrous metals and semi-finished products. First instalment was payable by India one year after completion of the last delivery against each project.

12. Czechoslovakia

A trade and payments agreement, valid for three years, was signed on 3 November 1960. Most-favoured-nation treatment in imports and exports was mutually extended. Both parties also agreed to use ships of one another to the maximum extent on the basis of competitive freight rates and other conditions.

Exports from India: cotton textiles, jute manufactures, woolen textiles, vegetable oils, spices, tobacco, tea and coffee, hides and skins, shellac, mica, iron and manganese ore, chemicals, pharmaceuticals, etc.

Exports from Czechoslovakia: complete industrial plants, diesel engines, other machinery and capital goods, machine tools, chemicals, motor cycles and spare parts, bicycles and spare parts, refrigerators and other consumer goods, etc.

Payments were to be made in non-convertible Indian rupees. Any balance left after the expiry of the agreement was to be settled in goods during the ensuing twelve months or, after the expiry of that period, in such a way as might be agreed upon between the two countries.

13. Eastern Germany

A trade and payments arrangement was signed in October 1954.

Exports from India: industrial raw materials, cotton and jute manufactures, etc.

Exports from Eastern Germany: equipment for rolling mills, gas and electric furnaces, lathes, mining, petroleum and civil engineering equipment, machines and equipment for chemical and pharmaceutical industries, textiles, cement, and sugar equipment and printing machinery.

Payments were to be made in Indian rupees or in pounds sterling as might be mutually convenient.

The arrangement also envisaged provision of Eastern German technical services for installation and operation of equipment supplied by Eastern Germany to India and also the provision of such Eastern German services for Indian importers as might be necessary for the planning and execution of projects.

14. Eastern Germany

A trade and payments arrangement, valid for three years, was signed on 8 October 1956.

Exports from India: animals, dried fruits, tea, spices, coffee, mica, shellac, chrome ore, iron ore, manganese ore, vegetable oils, cashew-nuts, textiles (cotton, silk and art-silk, woolen and jute), coir and manufactures, handicrafts, chemical and engineering products, etc.

Exports from Eastern Germany: machinery, locomotives (electric, diesel and steam), plant and equipment for cement and sugar production, tractors, transformers, medical and dental apparatus and instruments, wireless communications equipment, newsprint, films, etc.

Payments were to be made in Indian rupees. Balance in rupees in Eastern Germany's favour was to be convertible into sterling.

15. Eastern Germany

A special trade and payments arrangement and barter agreement were concluded on 16 July 1957 for promoting trade between the two countries.

Exports from India: jute goods, tea, coffee, mica, chemicals, wool, hides and skins, handloom cloth, leather goods, machine tools, tobacco, handicrafts, fans, sewing machines and other electrical appliances.

Exports from Eastern Germany: machinery (particularly textile machinery) and industrial raw materials.

Payments arrangements: Eastern Germany was to open a Special Trade Development Account with the Reserve Bank of India. Eastern Germany was to receive payments, after five years, in rupees to the credit of the East Germany Bank by using rupee proceeds of its exports of essential machinery, Eastern Germany could purchase Indian goods.

16. Eastern Germany

A supplementary trade and payments agreement was signed on 3 November 1958. The increased trade under the arrangement was to be conducted on a balanced basis. At the same time, the three-year trade and payment arrangement of 8 October 1956, was extended up to 31 December 1959.

Exports from India: tea, coffee and preserved fruit, raw materials, textile and leather products, handicrafts, etc.

Exports from Eastern Germany: machine-tools, poly-graphic machinery, products of precision of the mechanical and optical industries, electrical equipment, textile machinery, fertilizers etc.

Payments arrangements: a central clearing account in Indian rupees was to be set up. The rupees earned by export of Eastern German goods were to be utilized for purchase of Indian products.

17. Eastern Germany

Letters were exchanged on 18 December 1959, embodying a trade and payments arrangement, valid for three years from 1 January 1960. It has since been extended up to 31 December 1963. Most-favoured-nation treatment in imports and exports and in ships calling at each other's ports was mutually extended. Each party was to encourage the use of each other's ships to carry goods shipped under this agreement.

Exports from India: iron and manganese ore, tea, coffee, spices, cashew-nuts, textiles, ready-made garments, jute
India (continued)

manufactures, laminated jute bags, coir products, handi-
crafts, sports goods, canned fruits and fruit products,
shoes, woollen and silk fabrics, plywood and refrigerators.

Exports from Eastern Germany: machinery items like
textile machinery with automatic looms, printing machinery,
machine-tools, complete installations and plants, raw films,
precision and optical instruments, fertilizers, etc.

Payments were to be made in non-convertible Indian
rupees. The balance, if any, left after the expiry of the
agreement was to be settled in goods during the ensuing
year or, after the expiry of that period, in such other
manner as might be agreed upon between the two countries.

18. Hungary

Letters incorporating trade arrangements were exchanged
on 20 January 1951. They replaced the previous arrange-
ments which expired on 14 July 1950. Commodity lists
were attached to the arrangements. India agreed to treat
Hungary no less favourably than other countries in the
soft currency groups. Hungary agreed to treat India like
other countries with which Hungary had bilateral trade
agreements. The use of Indian ships to carry all Hungarian
cargo to all countries would be considered sympathetically
by Hungary. Payments were to be settled in Indian rupees
or sterling as mutually convenient. The arrangements
were extended to 31 December 1954.

19. Hungary

A trade and payments agreement was signed on 17 June
1954.

Exports from India: cotton industry products, tea,
tobacco, spices, vegetables and essential oils, iron and
manganese ore, leather goods, woollen textiles, jute goods,
coir and coir manufactures, sports goods (this list was
expanded by an exchange of letters on 10 March 1955 to
include groundnut oil).

Exports from Hungary: machinery and machine-tools,
laboratory equipment, motor cycles and spare parts,
electric motors, hardware and porcelain.

Letters were exchanged on 11 April 1957 extending the
validity of the Agreement for a further period of one year
ended 31 December 1957 with some modifications. The
modified schedules included:

Exports from India: tobacco and manufactures, tea,
coffee, pepper, tapioca and products, cashew-nuts and
cashew shell oil, cottonseed oil, cordage and ropes, silk
and rayon textiles and manufactures, shellac, wooll,
bristles, hides and skins, hardware, light engineering goods,
paints and lacquers, canned fruits, etc.

Exports from Hungary: dyes, electrical equipment, textile
machinery, tractors and agricultural machinery, laboratory
equipment, etc.

The agreement was extended for a further period of two
years ended 31 December 1959, with some modifications
through an exchange of letters signed on 15 January 1958
included:

Payments were to be made in rupees with balance con-
vertible into pounds sterling. A protocol was subsequently
signed on 15 June 1959, amending the payment provisions.
Under the revised arrangement, payments were to be made
in non-convertible Indian rupees. The balance, if any, left
after the expiry of the agreement was to be settled in goods
during the ensuing twelve months or in such other way as
might be agreed upon.

20. Hungary

A trade and payments agreement, valid for three years
from 1 July 1960, was signed on 25 June 1960. Most-
favoured-nation treatment in respect of imports and exports
was mutually extended.

Exports from India: tea, coffee, tobacco, vegetable oils,
mica, shellac, oil-seeds, jute and corn products, iron ore
and steel billets, de-oiled cakes, semi-tanned and processed
skins, leather, cotton, woollen and silk fabrics, handloom
and handicraft products, sports goods, shoes, light engineer-
ing goods, railway equipment, textile machinery, etc.

Exports from Hungary: capital goods and machinery for
small-scale industries, heavy electric generating sets,
photographic sensitised material, tools such as pneumatic
tools, precision tools, etc., components of electric supply
motors, pharmaceuticals and drugs in bulk, material-testing
instruments, garage tools, machine tools, refractory bricks,
radio transmitting and receiving tubes and radio parts, etc.

Payments were to be made in non-convertible Indian
rupees. The balance, if any, left after the expiry of the
agreement was to be settled in goods during the ensuing
twelve months or, after the expiry of that period, in such a
way as might be agreed upon between the two countries.

21. Korea (North)

A trade agreement was signed between North Korea and
the State Trading Corporation of India on 19 August, 1957.
Exports from India: raw cotton, cotton and woollen
textiles, jute goods, coir and manufactures, vegetable oils,
shellac, machine-tools, sewing machines, salt, etc.

Exports from Korea: cement, glass sheets and plates,
electrolytic zinc, steel, ammonium sulphate, etc.

No information was available as to payment arrange-
ments.

22. Korea (North)

Letters were exchanged on 2 June 1961, setting out
arrangements for development of trade between India and
North Korea. The agreement was originally valid for a
period of one year commencing June 1 1961, but has since
been extended up to 31 December 1963.

Exports from India: ferro-manganese, leather goods,
cotton textiles, handicrafts, vegetable oils, mica, shellac, etc.

Exports from North Korea: chemical fertilizers, electro-
lytic zinc, high speed and special steels, anthracite and
various types of equipment.

Payments were to be made in non-convertible Indian
rupees. Any balance left after the expiry of the agreement
would be settled in goods during the ensuing twelve months.

23. Outer Mongolia

A trade and payments agreement was formalized through
an exchange of letters on 14 January 1959 between the
Mongolian People's Republic and the State Trading
Corporation of India. The agreement was valid for 1959.

Exports from India: jute goods, tea, coffee, mica, shellac,
manganese ore, coir and manufactures, tobacco, light engineer-
ing goods, and handloom products.

Exports from Outer Mongolia: wool, hides and skins, furs,
meat, butter, live animals and minerals.

24. Poland

A trade agreement was concluded on 6 January 1951.
The agreement was renewed several times through 1955 by
exchanges of letters. It was renewed for a further period of
three months up to March 1956 on 31 December 1955.
India would treat Poland no less favourably than countries
in soft currency group. Poland would treat India as bilateral
trade agreement country.

Exports from India: iron and manganese ore, mica, tea,
coffee, tobacco, spices, handicraft and cottage industry
products, hides and skins, shellac, myrobalan and its
India (continued)

extracts, coir and coir products, wool and woollen products, etc.

Exports from Poland: sugar production plant and spare parts, refrigerators, cement production plant and spare parts, fire-fighting equipment, metal and wood-working machinery, small tools and workshop machinery, tractors and agricultural machinery and implements, chemicals, coal tar, cosmetics, laboratory chemicals, surgical and optical instruments, exposed films, camera and parts, microscopes, etc.

Payments were to be made in pounds sterling.

25. Poland

A trade and payments agreement was signed on 3 April 1956. The agreement was valid for a period of three years up to 31 December 1959 but the commodity schedules were to be revised every calendar year. The schedules were modified by exchange of letters on 1 March 1957 and 31 March 1958 and extended through the years ending 31 December 1957 and 31 December 1958, respectively.

Exports from India: iron and manganese ores, mica, shellac, myrobalan and extracts, tea, coffee, tobacco, spices, hides and skins, raw cotton, cotton textiles, raw wool, wool waste, jute goods, handicrafts and cottage industry products, etc.

Exports from Poland: constructional and road-building machinery, textiles machinery, milling and welding, etc., complete plant and equipment such as sugar refineries, alcohol distilleries, machine-tool plants, railway rolling-stock plants, electrical apparatus, iron and steel structures, diesel engines, electrical motors, agricultural implements and tractors, zine electrolytic sheets and dust, optical and medical instruments, industrial chemicals and cement, etc.

Payments were to be made in rupees with balance convertible into pounds sterling.

26. Poland

In pursuance of the trade and payments agreement of 3 April 1956, another agreement was signed between India and Poland on 11 April 1956, whereby Poland was to sell to India 50,000 tons of iron and steel products between 1 April and 31 December 1956; 100,000 tons of iron and steel products in 1957 and the same quantity in 1958; 100,000 tons of iron and steel products in 1959 and the same quantity in 1960; 100,000 tons of iron ore between 1 September 1956 and 31 March 1957 and another 100,000 tons in each of the years 1957 and 1958.

27. Poland

A special payments arrangement in addition to 3 April 1956 trade agreement was signed on 12 March 1958 for special trade development.

Exports from India: iron and manganese ores, mica, tea, tobacco, hydrogenated oils, leather goods, cotton and woolen textiles, silk and artificial silk fabrics, handicrafts and cottage industry products, soap, etc.

Exports from Poland: essential machinery for mining, drilling, and road building, textile machinery, complete plants, cranes, tractors, etc.

Payments were to be made on clearing accounts basis in Indian rupees. A protocol was subsequently signed on 15 November 1958, amending the payment provisions. Under the revised provisions payments were to be made in non-transferable Indian rupees. The balance, if any, left after the expiry of the agreement was to be settled in goods during the ensuing six months or in such other way that might be agreed upon.

28. Poland

A trade protocol, valid through 1959, was signed on 15 November 1958.

Exports from India: iron ore, mica, raw hides, tea, pepper, etc.

Exports from Poland: equipment for industrial plants and for mines, machine-tools, rolling stock, electro-technical apparatus, steel, iron goods, fertilizers, etc.

29. Poland

A trade and payments agreement, valid for three years from 1 January 1960, was signed on 2 November 1959. Most-favoured-nation treatment was mutually accorded under the agreement. Trade was to be on a balanced basis and commodity schedules attached to the agreement were to be agreed upon for each calendar year. The agreement was extended up to 3 December 1963 through an exchange of letters between the two countries on 20 November 1962.

Exports from India: tea, spices, cotton manufactures, mica, shellac, coir products, castor oil, oil-cakes, iron ore, palmyra fibre, textile machinery and accessories, sports goods, etc.

Exports from Poland: industrial raw materials, pharmaceuticals, ships and tankers, machinery and equipment for machine-tool factories, foundries, coal mining, etc., instruments and apparatus, etc.

Payments were to be made in non-convertible Indian rupees. Any balance left after the expiry of the agreement was to be settled in goods or after the expiry of that period, in such other manner as might be agreed upon between the two countries.

30. Poland

An agreement was signed on 7 May 1960 under which Poland granted a loan equivalent to Rs. 143 million ($30 million) for import of machinery and equipment required for industrial projects in India. The loan carried an interest of 2½ per cent per annum and was repayable in eight equal annual instalments commencing one year after the last shipment of machinery required for putting the plant in operation. The repayments were to be made in Indian rupees to be utilized by Poland for the purchase of Indian goods.

31. Poland

An agreement was signed on 16 November 1962 under which Poland granted to India a loan equivalent to Rs. 155 million ($32.56 million) for the purchase of machinery and equipment and for the procurement of services for coal mines and other projects as might be mutually agreed upon between the two Governments. The loan carried an interest of 2½ per cent and was repayable in eight equal instalments in Indian rupees to be utilized by Poland for the purchase of Indian goods. The first instalment was payable one year after the date of the shipment of the last consignment of machinery and equipment.

32. Romania

A trade and payments agreement was signed on 23 March, 1954. It was subsequently extended up to 31 December 1956.

Exports from India: jute goods, iron ore, timber, tea, coffee, spices, hides and skins, textiles, etc.

Exports from Romania: oil drilling equipment, oil products, chemicals, railway materials, agricultural machinery, corn, etc.

The commodity schedules attached to the agreement were modified in January 1957 and extended for the whole year 1957. Letters were again exchanged on 20 January, 18 June and 2 September 1958 extending the validity of these
schedules up to the end of June, September and December 1958, respectively. The revised schedules included some additional items of export like vessels, cement, etc., from Romania.

Payments were to be made in rupees or pounds sterling as might be mutually agreed upon.

33. Romania

An agreement was signed on 20 October 1958 under which Romania granted to India a loan equivalent to Rs. 52.3 million ($11 million) for purchase of equipment and for technical and other services required for the setting up of a refinery in Assam (India). The loan carried an interest of 2½ per cent per annum and was repayable over a period of seven years in Indian rupees to be used for the export of Indian goods.

34. Romania

A trade and payments agreement, valid for three years from 14 May 1959 to 13 May 1962, was signed on 14 May 1959. The agreement accorded most-favoured-nation treatment to the contracting parties. Commodity schedule attached to the agreement were to be extended or renewed at the beginning of each calendar year.

Exports from India: iron ore, iron alloys, raw materials for textiles, hides, vegetable oils, pepper, coffee, etc.

Exports from Romania: industrial installations and equipment, equipment for the oil industry, electrical equipment, machine-tools, tractors, road rollers, diesel engines, chemicals and pharmaceutical products, etc.

Payments were to be made in non-convertible Indian rupees. Balance, if any, left after the expiry of the agreement was to be settled in goods during the ensuing six months or in such other way as might be agreed upon.

35. Romania

A trade and payments agreement, valid for six years from 1 January 1963, was signed on 30 November 1962. Most-favoured-nation treatment in regard to exports and imports and ships calling at each other's ports would be mutually extended. Both Governments agreed to render all assistance in using each other's ships for carrying goods exchanged under the agreement.

Exports from India: spices, coffee, tea, vegetable oils, cashew kernels, jute and corn products, hides and skins, leather products, mica, handicrafts and cottage industry products, sports goods, engineering goods, etc.

Exports from Romania: plants and equipment such as oil refineries, cement plants, power plants, plants for the chemical and petro-chemical industry, railway rolling stock, electro-technical equipment, lifting machinery, newsprint, etc.

Payments were to be made in non-convertible Indian rupees. Balance, if any, left upon the expiry of the agreement, would be settled in goods during the ensuing six months or in such other way as might be agreed upon between the two countries.

36. USSR

A trade and payments agreement, valid for five years, was signed on 2 December 1953.

Exports from India: jute goods, tea, coffee, tobacco, spices, shellac, wood, hides and skins, vegetables and essential oils, coir yarn and ropes, live animals, chemicals, films, books and cottage-industry products, etc.

Exports from the USSR: wheat, barley, crude petroleum and petroleum products, timber and paper, optical goods, dyestuffs, chemicals, medicines, printed matter, films, industrial equipment, machinery and machine-tools, etc.

The commodity schedules attached to the agreement were modified and extended for 1957 through an exchange of letters on 30 January 1957. The revised commodity schedules included:

Exports from India: cashew-nuts, woollen fabrics, footwear, hydrogenated oils, mica, etc.

Exports from the USSR: iron and steel manufactures, aluminium, rough emeralds, chemicals, optical goods, industrial equipment including boring, mining and road-building equipment, excavators, compressors, electrical equipment, equipment for textile, shoe, food and poly-graphic industries, tractors and agricultural machinery, etc.

Through a further exchange of letters on 3 January 1958, the commodity schedules were revised and extended up to 2 December 1958.

Payments were to be made in Indian rupees or other currencies. The State Bank of the USSR was to maintain accounts with the authorized exchange banks and the Reserve Bank of India for this purpose.

37. USSR

An agreement was signed on 2 February 1955 under which the Soviet Union agreed to extend a credit equivalent to Rs. 647.4 million ($136 million) for the Bhilai Steel Plant. The bulk of the amount, i.e., Rs. 643.8 million ($135 million), was for the Indian purchases of plant, equipment and structural steel works and the balance for the training of Indian personnel in the USSR. The credit carried an interest of 2½ per cent per annum and was repayable in twelve annual instalments in convertible Indian rupees to be used by the USSR for purchase of Indian goods in accordance with the Indo-Soviet trade agreements.

38. USSR

A contract for the construction of a steel mill was concluded on 8 March 1956 which came under a general agreement of 2 February 1955. USSR was to finance one-half of the rupee cost and that came to $US 115 million. Repayments were to be made in twelve annual instalments at 2.5 per cent annual interest.

39. USSR

A credit agreement was signed on 15 November 1956 for the extension of US $126 million long-term loan.

40. USSR

An agreement was signed on 9 November 1957, under which the Soviet Union agreed to grant to India a loan equivalent to Rs. 593.3 million ($125.06 million) for industrial projects (heavy machine building plant at Ranchi; coal mining machinery plant at Durgapur; thermal power station at Neyveli; special glass factory for production of ophthalmic glass); and for Korba Coal Fields. The loan carried an interest of 2½ per cent per annum and was repayable in twelve annual instalments in convertible Indian rupees to be utilized by the Soviet Union for the purchase of Indian commodities in accordance with the Indo-Soviet trade agreements.

41. USSR

A trade and payments agreement, valid for five years from 1 January 1959 was signed on 16 November 1958. The agreement gave most-favoured-nation treatment to the contracting parties.

Exports from India: tea, spices, hides and skins, wool, tobacco, shellac, cashew-nuts, vegetable and essential oils, jute fabrics and sacks, leather goods, woollen fabrics, coconut fibre products, etc.
India (continued)

Exports from the USSR: equipment for industrial establishments, coal industry and irrigation works, machine-tools and instruments, tractors and farm machinery, ferrous rolled stock, non-ferrous metals, fertilizers, dyes, cellulose, paper, asbestos and other industrial materials and products, petroleum products, cereals, film, printed matter, etc. Aeroplanes and helicopters were among the new items added to the schedule for 1960, according to the notes exchanged on 14 March 1960.

Payments were to be made in Indian rupees.

The balance left at the expiry of the agreement would be used to buy Indian or Soviet goods in six months, or might be settled in any other way as to be mutually agreed upon.

42. USSR
An agreement was signed on 29 May 1959 under which the Soviet Union granted to India a loan equivalent to Rs. 95.2 million ($20 million) for drug projects. The loan carried an interest of 21/2 per cent per annum and was repayable in seven annual instalments in Indian rupees to be utilized by the Soviet Union for purchase of Indian goods.

43. USSR
An agreement was signed on 12 September 1959 under which the USSR granted a loan equivalent to Rs. 1,785.8 million ($375.17 million) for the projects included in India's Third Five-Year Plan. The loan carried an interest of 21/2 per cent per annum and was repayable in twelve annual instalments in convertible Indian rupees to be utilized by the Soviet Union for the purchase of Indian goods.

44. USSR
An agreement was signed on 28 September 1959 under which the USSR granted to India a loan equivalent to Rs. 119.1 million ($25 million) for oil refinery. The loan carried an interest of 21/2 per cent per annum and was repayable in twelve annual instalments in Indian rupees to be utilized by the Soviet Union for the purchase of Indian goods.

45. USSR
An agreement, valid for three and a half years, was signed in 1960 for the supply of 1.5 million tons of Soviet petroleum products, mainly kerosene and high-power diesel oil to India; payments were to be made in Indian rupees.

46. USSR
An agreement was signed on 21 February 1961 under which the Soviet Union granted a loan equivalent to Rs. 595.3 million ($125 million) for additional projects included in India's Third Five-Year Plan. The loan carried an interest of 21/2 per cent and was repayable in twelve annual instalments in Indian rupees to be utilized by the Soviet Union for the purchase of Indian goods.

47. USSR
A five-year trade agreement was signed in June 1963 envisaging a two-fold increase in the trade between the two countries from about Rs. 50 crores in 1963 to about Rs. 105 crores in 1966. Among the commodities to be imported by India from the USSR would be petroleum products which would supplement the present supplies to meet the country's increasing requirements. The export of shoes from India would go up from the present three lakh pairs to about a million pairs.

48. Viet-Nam (North)
A trade agreement, valid for three years up to 21 September 1959, was signed on 22 September 1956. Its validity was extended to 21 September 1965 as agreed in letters exchanged in September 1962.

Exports from India: machinery of various types, agricultural implements, electrical goods, jute manufactures, cotton piece-goods, handloom cloth, wool and woollen goods, oils and oil seeds, tea, coffee, fish, tobacco and manufactures, rubber and leather goods, etc.

Exports from Viet-Nam: livestock, timber, seed oils and resins, tanning pigments, tea products, flour and grains, fruits, handicraft articles, cement, graphite, limestone, porcelain clay, etc.

Payments were to be made in Indian rupees or pounds sterling as might be mutually convenient.

49. Viet-Nam (North)
An agreement for the supply of 7000 tons of Viet-Nam's rice to India was signed between North Viet-Nam and the State Trading Corporation of India on 1 May 1957.

50. Viet-Nam (North)
Another agreement for the supply of further 7000 tons of North Viet-Nam's rice to India was signed between North Viet-Nam and the State Trading Corporation of India on 28 November 1957.

51. Viet-Nam (North)
Two agreements, each for the supply of 1.5 million Indian gunny bags to Viet-Nam, were signed on 10 April and 17 October 1959, respectively.

Indonesia

1. Bulgaria
An agreement was signed on 5 May 1961, valid for one year.

Exports from Indonesia: rubber, coffee, tea, copra, etc.

Exports from Bulgaria: building materials, textiles and drugs, etc.

An earlier agreement was signed on 14 December 1954, but did not go into effect.

2. China (mainland)
A trade agreement, valid for one year, was signed on 4 January 1954.

Exports from Indonesia: rubber, tin, bauxite, tea, coffee, sugar, tobacco, pepper, hides, copra, coconut, and palm oil.

Exports from mainland China: machinery, chemicals, textiles, medicines, paper and fuel.

Payments were to be made in pounds sterling, dollars or Swiss francs; no clearing accounts.

3. China (mainland)
A trade agreement was signed on 3 November 1956, valid for one year, and envisaging a total trade of £12 million each way.

Exports from Indonesia: rubber, copra, coconut oil, sugar, coffee, spices, rattan and lumber.

Exports from mainland China: machine-tools, chemicals, minerals, electrical goods, building materials, cotton piece-goods, silk, rice and other foodstuffs.

4. China (mainland)
A new agreement was signed on 1 September 1954, valid from 1 August 1954 to 31 July 1955. It provided for a total
Indonesia (continued)

trade of $8.4 million each way, a swing credit of $1.7 million, and settlements through clearing accounts. The validity was renewed to 31 July 1956.

5. China (mainland)
An agreement was signed on 4 February 1958 for the supply of 25,000 tons of rice valued at £1,022,000 to Indonesia.

6. China (mainland)
Notes were exchanged on 17 April 1958 for granting by China a loan equivalent to 48 million Swiss francs to cover the Indonesian purchases of 20,000 tons of rice and 72 million yards of textiles from China. The loan was repayable in ten years and carried an interest of 2.5 per cent per annum.

7. China (mainland)
An agreement was signed on 13 October 1958 for the supply of 75,000 tons of rice valued at £3,225,000 to Indonesia.
Payments were to be made by clearing accounts.

8. China (mainland)
An agreement was signed in November 1961 under which mainland China agreed to grant to Indonesia a loan of 129,600,000 Swiss francs for the construction of cotton mills and weaving plants. The loan was to be disbursed over a period of four years, carried an interest of 2 per cent per annum and was repayable in twelve years.

9. Czechoslovakia
A trade agreement was signed on 26 July 1955 valid for one year until 14 July 1956, and envisaging a total trade of £6 million each way. It replaced earlier agreements of July 1954 and October 1951 which called for settlements by clearing accounts.
Exports from Indonesia: rubber (18,000 tons), tapioca, kapok, pepper and other products.
Exports from Czechoslovakia: machinery, diesel engines, motor vehicles, cement, hardware, paper, matches, cigarettes, textiles, etc.
Payments were to be made in pounds sterling. The price for rubber was to be 10 per cent above London price. Multilateral transactions were permitted.

10. Czechoslovakia
A five-year credit agreement was signed in 1956 and effective from 16 May 1956, for the purpose of facilitating the exchange of goods. No amount of credit was specified, but the agreement set forth terms of loans. The repayments were to be made by instalments in two and a half years with annual interest of 4 per cent.

11. Czechoslovakia
A trade agreement was signed in November 1956 and valid through 17 November 1957. It provided no quotas.
Exports from Indonesia: rubber, copra, tin, palm kernels, spices, etc.
Exports from Czechoslovakia: machinery, motor cycles, cars, paper, textiles, etc.
The agreement also provided that the re-exports of each other's goods was to be permitted only under surveillance of a joint committee.

12. Czechoslovakia
A trade agreement was signed on 9 May 1958, valid for one year up to November 1959. The protocol envisaged a total trade of £12 million each way.

Exports from Indonesia: tin, rubber, sisal, mother-of-pearl, etc.
Exports from Czechoslovakia: engineering products, etc.
Payments by clearing account system.

13. Czechoslovakia
An agreement was signed on 19 July 1960 under which Czechoslovakia agreed to grant to Indonesia a loan equivalent to £12 million for construction of twelve chemical plants.

14. Eastern Germany
A trade agreement was signed in June 1954 between a group of Indonesian business organizations and representatives of the East German Chamber of Foreign Trade for trade on barter basis with a swing credit of £150,000.
Exports from Indonesia: rubber, tea, coffee, copra, rattan, tobacco, tin, spices, cinchona bark, etc.
Exports from Eastern Germany: industrial machinery, office equipment, domestic appliances, textiles, medical instruments, chemicals, agricultural implements and construction materials including cement.

15. Eastern Germany
A trade agreement was signed on 12 December 1956, valid for one year and renewable for another year if no notice of termination was given three months before its expiry.
Exports from Indonesia: rubber, tea, copra, tin, pepper, coconuts, oil seeds, coffee, rattan, tobacco, wood, tapioca, handicrafts, etc.
Exports from Eastern Germany: industrial plants and equipment, vehicles, pumps, compressors, tools, metal ware, printing machinery, electric motors, office machines, precision and optical instruments, fertilizers, cement, glass, ceramics, paper and paper products, etc.
Payments were to be made in transferable pounds sterling.

16. Eastern Germany
A trade agreement, valid for one year with provision for automatic extension, was signed on 17 February 1961.
Exports from Indonesia: copra, vegetable oils, oil cakes, rattan, rubber, etc.
Exports from Eastern Germany: industrial plants, machinery, precision machinery, optics, electro-technical and chemical products, textiles and other consumer goods.
Eastern Germany also offered to render assistance to Indonesia in various fields of industry by supplying complete factories and giving technical advice as well as training of Indonesian personnel in Eastern Germany.

17. Hungary
A trade agreement was signed on 16 October 1957. The agreement was valid for one year, from 16 October 1957 to 15 October 1958, but could be extended for another year if no notice of termination was given three months before its expiry. Most-favoured-nation treatment was mutually extended. This agreement replaced the previous agreement of 22 June 1954 which called for payments under clearing accounts with a swing credit of 5526,000 and a total trade of £7.7 million each way.
Exports from Indonesia: tin, rubber, copra, tea, coffee, palm oil, tobacco, sugar, pepper, rattan, resin, kapok, tapioca, wood, spices, petroleum and petroleum products, etc.
Exports from Hungary: various kinds of machinery and equipment such as aluminium processing plants, iron,
Indonesia (continued)

steel and metal foundries, chemical works, sugar factories, rice mills, refrigerating and ice plants, power plants, cement factories, drilling equipment, power distribution materials, railway materials, motor vehicles, ships and boats, sewing machines, medical and pharmaceutical articles, chemicals, stationery, textiles, etc.

Payments: in transferable sterling. No quotas.

18. Hungary

A long-term trade agreement, an economic co-operation agreement, and an agreement on scientific and technical co-operation were signed on 5 September 1961. Under these agreements, Hungary agreed to advance a five-year loan of £10 million at 2% per cent interest per annum, to help chemical, pharmaceutical, machine building and other industrial projects.

The long-term trade agreement was an extension of the agreement signed in 1957.

19. North Korea

A trade agreement, valid for one year until 14 May 1958, was concluded on 15 May 1957.

Exports from Indonesia: rubber, tea, coconut oil, copra, desiccated coconut, spices, resins, vegetable oils, quinine and cinchona bark, coffee, rattan, tapioca, timber, pearls, cocoa kernels, tanning materials, etc.

Exports from North Korea: electrolytic zinc and lead, steel, cement, window glass, chemical fertilizers, caustic soda, calcium carbide, sodium bicarbonate, salted fish, silk, etc.

Payments: by clearing accounts, until around mid-1957. Settlements were to be made by transferable sterling thereafter.

20. Poland

A one-year trade agreement, signed in 1955 and effective from 1 May 1955, provided for $US 5 million total trade each way. It replaced an earlier agreement of July 1954.

Exports from Indonesia: raw materials, tea, coffee, pepper and quinine.

Exports from Poland: textiles, metal goods, textile machines, glass, chemicals, etc.

Payments: by clearing accounts, until around mid-1957. Settlements were to be made by transferable sterling thereafter.

21. Poland

An agreement was signed on 27 June 1958 for the supply of twenty-four Polish ships, totalling 62,000 tons, valued at about $39 million on a long-term credit basis.

22. Poland

A trade agreement was signed on 7 August 1958, provisionally effective as from June 1958.

Exports from Indonesia: rubber, copra, tin, palm oil, fibres, tea, coffee and tobacco.

Exports from Poland: ships, equipment for shipyards, complete industrial plants, machinery, electrical equipment, building materials, agricultural machines and tractors.

Payments: in transferable pounds sterling or other acceptable currency.

23. Romania

A trade agreement was signed on 25 November 1956. It replaced the agreement of 31 July 1954 which provided for payments by clearing accounts and a total trade of $US 4.76 million each way.

Exports from Indonesia: rubber, coffee, spices, etc.

Exports from Romania: complete machinery for production of flint and cement, river boats and seaships, and equipment for oil industry, mining and railways.

Payments: to be made in transferable sterling under irrevocable letters of credit.

24. Romania

A protocol on further expansion of economic and technical co-operation and increased trade between the two countries was signed in June 1961.

25. USSR

A one-year trade agreement was signed on 12 August 1956 and automatically renewable for another year if no prior notice of termination was given.

Exports from Indonesia: rubber, copra, coffee, tea, tobacco, pepper, spices, quinine, cocoa beans, tapioca, oil seeds, palm oil and kernels, sugar, essential oils, etc.

Exports from the USSR: machinery and equipment, electrical equipment, motor vehicles, diesel engines, tractors, agricultural implements, optical instruments, iron and steel, metal goods, cotton fabrics, yarn, newsprint, cement, chemicals and medicines, etc.

Payments: were to be made in pounds sterling without clearing accounts. No quotas were provided. A separate agreement between the Bank of Indonesia and the State Bank of USSR was concluded in 1957. It provided for the opening of a sterling account by the Bank of Indonesia with the State Bank of USSR for channelling all payments due from trading between the two countries.

26. USSR

A credit agreement signed in August 1956 extended an equivalent of $US 100 million in economic and technical assistance for the planning, surveying and equipping of plants to produce coal, non-ferrous metals, building materials and hydro-electric power. Indonesian technicians were to be trained and Soviet experts were to be provided to assist in the operation of the plants. The credit bore 2.5 per cent annual interest and was repayable over twelve years in Indonesian goods or in sterling or in other acceptable currency.

27. USSR

Another loan agreement was signed in early 1957, extending a credit of $US 6 million to Indonesia for the purchase of up to 4000 jeeps. The credit was to be repaid in five years.

28. USSR

An agreement was signed on 7 October 1958 under which the USSR was to sell to Indonesia 200,000 tons of rice, valued at £8,675,000 including freight.

Payments: were to be made under four months after arrival of each shipment.

29. USSR

An agreement in the nature of a protocol was signed on 3 January 1959 in regard to the utilization of Soviet credits equivalent to $100 million extended under the Indonesian-USSR economic agreement of August 1956. It was agreed to use the loans for the establishment of two iron and steel factories and one super-phosphate factory, construction of highways and establishment of two mechanized rice-farming units.

30. USSR

A trade agreement was signed on 9 July 1960. On 30 April 1963, it was extended to 1965.

Exports from Indonesia: rubber, tin, sisal, copra, goat-skins, palm oil, coffee, etc.
Indonesia (continued)

Exports from USSR: machinery with spare parts, pharmaceuticals, fertilizers, cement, paper, cotton fabrics, etc.

31. USSR
An agreement was signed in 1960 under which the Soviet Union agreed to grant to Indonesia a loan equivalent to $250 million for power, engineering and industrial enterprises. The loan carried an interest of 2½ per cent per annum and was repayable over a period of twelve years.

32. North Viet-Nam
A trade agreement, valid for one year, was signed on 8 January 1957.

Exports from Indonesia: rubber, sugar, coffee, copra, pepper, coconut oil, quinine and cinchona bark, tobacco, hides, tin, etc.

Exports from North Viet-Nam: rice, cement, fertilizers, anthracite, phosphate, dried and salted fish, textiles, silk goods, fruits, etc.

Payments were to be made in pounds sterling; no clearing accounts.

33. North Viet-Nam
An agreement for the supply of 25,000 tons of North Viet-Nam's rice to Indonesia during the period July-December 1957 was signed on 20 July 1957.

Payments were to be made in pounds sterling.

34. North Viet-Nam
An agreement was signed on 10 July 1958 for the supply of 10,000 tons of North Viet-Nam's rice during July-September 1958.

Iran

1. Czechoslovakia
A trade and payments agreement, valid from 28 August 1952 to 27 August 1953, was signed in 1952. It provided for commodity lists, no quotas, and envisaged a total trade of $4.14 million each way. Unit of account was the Swiss franc.

2. Czechoslovakia
A new trade and payments agreement, valid for the year 1955 was concluded between the two countries. Payments were to be made in Swiss francs. It provided for a total trade of $9.3 million both ways with commodity lists.

3. Czechoslovakia
A trade and payments agreement, valid for one year, was signed on 2 August 1957. Commodity lists were included in the agreement, but no other details were available.

4. Czechoslovakia
A trade agreement was signed on 2 February 1961, envisaging a 10 per cent increase in the total trade between the two countries.

Exports from Iran: rice, tobacco, iron ore concentrates, cotton, wool, oil-seeds, skins and carpets.

Exports from Czechoslovakia: industrial equipment, chemicals, paper, glass and construction steel.

5. Hungary
A trade and payments agreement, valid for one year from 4 June 1955, provided for clearing accounts at Bank Melli Iran (in US dollars). Its validity was renewed to 4 June 1958. Swing credit was at $575,000, payable in pounds sterling. Commodity lists were given, without quotas. A total trade of $4.3 million was envisaged each way. At the termination of the agreement, final settlement was to be in terms of commodity within nine months, after which the settlement would be in pounds sterling. This agreement replaced the previous one expired in 1953.

6. Hungary
A trade agreement, valid until June 1963, was concluded in 1962, envisaging an increase of about 55 per cent in trade from the amounts specified in the previous agreements.

7. Poland
A trade and payments agreement initially valid for one year from 8 October 1952 and subsequently extended to 1956 was signed in 1952. Payments were to be made by clearing accounts at Bank Melli Iran in Swiss francs. Swing credit was at $550,000. Commodity lists were given without quotas. A total trade of $2.78 million both ways was envisaged.

8. Poland
A new trade agreement valid from 16 April 1956 to 15 April 1957 was signed. The amount of swing credit remained the same as in the previous agreement, but it was stipulated that settlement of overdrawn swing credit was to be in pounds sterling. At the termination of the agreement, final settlement was to be in goods within six months, thereafter in sterling. A total trade of $10 million was envisaged each way. A new trade agreement was signed to cover the period of 17 April 1957 to 16 April 1958. No details are available.

9. Poland
A trade agreement, envisaging a minimum annual exchange of goods worth Rials 100 million was signed on 13 October 1958.

Exports from Iran: rice, dried fruits, wool, silk, carpets, minerals, semi-precious stones and cotton.

Exports from Poland: machinery and manufactured goods.

10. Poland
A trade agreement, valid for the year ended 21 March 1961, was concluded in 1960, envisaging a total trade turnover of $11.2 million each way.

Exports from Iran: cotton, zinc, iron ore, etc.

Exports from Poland: industrial equipment and other manufactured goods.

11. Poland
A trade agreement was signed on 2 May 1962.

Exports from Iran: dried fruits, wool and goat's hair, carpets, skins, etc.

Exports from Poland: machinery and manufactured goods, trucks and radio sets.

12. USSR
A protocol to the commerce and navigation agreement of 1940 and trade and payments protocol of November 1950, valid for one year from 1 April 1954 to 31 March 1955 and renewable annually by mutual agreement, was signed in June 1954.

The protocol envisaged a total trade turnover of Rials 2,298 million ($25.5 million) from Iran and Rials 2,220 million ($24.7 million) from the USSR.

Exports from Iran: rice (30,000 tons), tobacco (3000 tons), wool (7000 tons), cotton (7000 tons), lead ore (50,000 tons), tin ore (12,000 tons), oilseeds (4000 tons), dates (5000 tons), sulphuric ore, lamb-skins, cumin seeds, fish, pork and drugs, etc.
Iran (continued)

Exports from the USSR: refined sugar (80,000 tons), cotton textiles (55 million metres), iron and steel products (11,000 tons), cement (60,000 tons), paper products (10,000 tons), chemical products (1000 tons), agricultural machinery, electrical equipment, passenger cars, trucks and spare parts, sewing machines, etc.

Payments were to be settled through clearing accounts in Swiss francs. The protocol also provided for a swing credit of SUS 935,000. The payments for overdrawn swing credit were to be made in goods. Settlement at termination made in Swiss francs. More protocols of this nature were exchanged in each subsequent year.

13. USSR

A trade agreement, valid for three years, was signed on 16 April 1957.

Exports from Iran: rice, fish products, dried fruits, oil-seeds, cotton, wool, hides, tobacco, carpets, etc.

Exports from the USSR: industrial and agricultural machinery, cars, ironware, timber, paper, chemical goods, medicines, sugar, textiles, etc.

It provided no quotas.

14. USSR

A trade agreement, valid for one year from 4 November 1960, was signed on the same date. The trade was to be channelled through Government trading companies created for the purpose in Iran and the Soviet commercial missions.

Exports from Iran: rice (35,000 to 60,000 tons), cotton (3,000 tons), tobacco (10,000 tons), wool (1000 tons), goat-hair (300 tons), oilseeds (4000 tons), sheep and goat-skins (300,000 tons), lamb-skins (30,000 tons), dried fruits and nuts (9000 tons).

Exports from the USSR: sugar (75,000 tons), iron rails (30,000 tons) and rail-road appliances, cement (20,000 tons), cotton piece-goods (50 million metres), china and artificial chinaware ($500,000), timber ($250,000), paper and newsprint ($250,000).

Japan

1. Bulgaria

A one-year barter agreement was signed by Japanese-Soviet Trade Association and Bulgarian Chamber of Commerce in 1955, and was valid from 24 September 1955. Commodity lists were given and a total trade of SUS 1.96 million both ways was envisaged. Settlement at termination was to be in goods. Payments were to be made through clearing accounts at a London branch of Moscow Bank.

2. China (mainland)

A trade agreement was signed on 1 June 1952 by Japan Diet Members’ Union to Promote Japanese-Chinese Trade and People’s Republic of China, was valid for one year from 4 May 1955. It envisaged a total trade of $84 million each way. Commodity lists were given and also classified into three categories. Payments were to be made in pounds sterling until a payment arrangement was made between the central banks of both countries. A total trade of SUS 84 million was envisaged each way. The validity of the agreement was later extended until 3 May 1957 and the commodity lists were expanded.

3. China (mainland)

A barter agreement was signed in January 1953 for exchange of Japanese textiles with China’s soy-bean cakes valued at $470,000.

4. China (mainland)

A trade agreement, signed by Japan Diet Members’ Union to Promote Japanese-Chinese Trade and People’s Republic of China, was valid for one year from 4 May 1955. It envisaged a total trade of $84 million each way. Commodity lists were given and also classified into three categories. Payments were to be made in pounds sterling until a payment arrangement was made between the central banks of both countries. A total trade of SUS 84 million was envisaged each way. The validity of the agreement was later extended until 3 May 1957 and the commodity lists were expanded.

5. China (mainland)

A trade agreement was signed by the Japanese Food Agency and the Government of mainland China on 3 August 1955 for the exchange of Japanese ammonium sulphate and miscellaneous goods with 40,000 metric tons of Chinese rice to be delivered by 31 October 1955. The purchases by mainland China to offset the sales of rice were to be made within nine months.

6. China (mainland)

A trade agreement, valid for five years, was signed on 9 November 1962.

Exports from Japan: rolled steel, chemical fertilizers, insecticides, agricultural machinery and farm equipment.

Exports from mainland China: coal, iron ore, soybeans, maize, salt, tin, etc.

7. Czechoslovakia

A barter trade agreement was signed around October 1955 by Japanese-Soviet Trade Association and Czech Public Metal Export Corporation. Commodity lists were exchanged. A separate contract was signed by the Czech National Bank and Bank of Tokyo to permit the latter to open letters of credit with Czech banks.

8. Czechoslovakia

A Treaty of Commerce, signed on 15 December 1959 and valid for five years, provided inter alia for most-favoured-nation treatment in trade, shipping and internal taxes and charges.

9. Czechoslovakia and North Viet-Nam

A trilateral trade contract was signed in January 1956 by Czech and North Viet-Namese representatives and three Japanese firms. Commodity lists were given with some quotas. Payments were to be made on a switch account basis.

10. Eastern Germany

A barter agreement between Eastern German Government and Nichimen Jitsugyo Co. were signed in May 1954. It gave commodity lists and quotas. A total trade of SUS 1.9 million each way was specified.

11. Eastern Germany

In June 1955, the Eastern German Government entered into a barter agreement with three Japanese firms for a total trade of SUS 3.1 million each way. Commodity lists and quotas were given.

12. Eastern Germany

A one-year barter agreement was signed on 24 August 1955 by Japanese-Soviet Trade Association and Eastern German Compensation Public Trade Corporation. It provides for a total trade of $3.2 million each way. Commodity lists were included.

13. Hungary

A one-year barter agreement was signed in October 1955 between Japanese-Soviet Trade Association and Hungarian
14. North Korea
A commodity exchange agreement was signed on 26 February 1956 by Korean Trading Company and Japanese International Trade Promotion Association, Diet Members' Union. A total trade of $14 million both ways, was specified. Commodity lists classified into three categories were included. Final settlement at the termination of the agreement was to be in terms of goods, or by letter of credit through a bank of third country.

15. North Korea
A trade agreement was signed on 27 September 1957 for a total trade of $2.1 million each way with commodity lists.

16. Poland
A trade and payments agreement, valid for one year from 26 April 1958 to 25 April 1959, was signed on 26 April 1958. The agreement was automatically renewable for periods of one year. On the same date both countries also signed a treaty of commerce, granting reciprocal most-favoured-nation treatment with regard to trade and shipping. The treaty was valid for five years after ratification.

Exports from Japan: agar-agar, canned goods, raw silk, textiles, tyres, copper wire, bearings, chemical products, watches, cameras, etc.

Exports from Poland: hops, malt, barley, vegetable seeds, natural cheese, molasses, medicinal herbs, oak, lard, pharmaceutical raw materials, etc.

Payments were to be made in transferable sterling or dollars.

17. Romania
A one-year barter agreement was signed on 21 February 1956 by the Japanese-Soviet Trade Association and Romanian representatives. It envisaged a total trade of $US 5.6 million both ways. The Bank of Tokyo and Romanian State Bank were to effect financial arrangements.

18. Romania
A trade agreement, valid through 1956, was signed on 23 March 1956. The agreement envisaged a total trade of £1 million.

Exports from Japan: artificial silk, cotton, textiles, canned fish, ball bearings, copper wire, rolled steel, etc.

Exports from Romania: oil, timber, farm products, etc.

19. USSR
A two-year barter provisional agreement was signed in June or July 1954 by unofficial Soviet trade mission and Japanese private firms. It envisaged a total trade of $US 40 million each way. Commodity lists were included.

20. USSR
A trade agreement, valid for one year from 6 December 1957 to 5 December 1958, was signed on 6 December 1957. The agreement envisaged a total trade of $28 million or more each way. At the same time the two countries signed a treaty of commerce, valid for five years, which provided for reciprocal most-favoured-nation treatment and establishment of a USSR trade mission in Japan, the chief of which and two assistants were to be accorded diplomatic privileges.

21. USSR
A trade agreement, valid for three years, was signed on 5 February 1963. The agreement replaced the previous agreement which expired at the end of 1962.

Exports from Japan: tankers, dry-cargo ships, fishing vessels, floating cranes, dredgers, textile machinery, pulp plant, scientific instruments, ceramics, etc.

Exports from USSR: crude oil, timber, pig iron, asbestos, asphalt, lead, oil, etc.

22. North Viet-Nam
A barter agreement between the North Viet-Nam Government and Meiwa Sangyo Company was concluded in February 1956, providing for exchanges of commodities listed in the agreement with some quotas.

23. North Viet-Nam
A trade agreement was concluded on 29 May 1956 by the Japan International Trade Promotion Association together with the Japan-Viet-Nam Trade Association and the North Viet-Nam General Export and Import Public Corporation. The total value of trade envisaged in the agreement was £1.5 million each way.

Exports from Japan: iron and steel products, non-ferrous metals, machine tools, railway equipment, ships, coal-tar, sewing machines, typewriters, electric appliances, radios, chemicals and fertilizers, textiles, etc.

Exports from North Viet-Nam: iron, manganese, chrome and antimony ores, coal, oils and fats, lumber, graphite, asbestos, mica, salt, beans, coffee, dried tapioca, handicrafts, etc.

The commodities were classified into three categories.

Payments to be settled through a Chinese bank in Hong Kong.

The agreement was extended to March 1958 with both parties expressing the desire to increase trade to over $US 4.2 million each way.

24. North Viet-Nam
A three-year private trade protocol was signed on 4 September 1963 between the Japan-North Viet-Nam Trade Association and the North Vietnamese Chamber of Commerce calling for expanded trade between Japan and North Viet-Nam.

Japan's exports: steel materials, non-ferrous metals, machinery and industrial equipment, ships, chemical goods, fertilizers, automobiles and textiles.

North Viet-Nam's exports: coal, zinc, oilseeds, fruits and handicrafts.
INTERNATIONAL TRADE AND ECONOMIC DEVELOPMENT

Laos

1. China (mainland)
   A trade agreement was signed by the two countries on 25 August 1956. No details were available.

2. USSR
   A trade agreement was signed in January 1962.
   Exports from Laos: wood, cotton, raw hides, tobacco, oilseeds and coffee.
   Exports from the USSR: machinery, automobiles, petroleum products and chemicals.

Nepal

1. China (mainland)
   An agreement was signed in October 1956 under which China granted to Nepal aid equivalent to Rs. 60 million ($12.6 million): Rs. 20 million ($4.2 million) in cash and the balance in machinery (modern furnaces, cement plants and paper-making machines).

2. China (mainland)
   An agreement was signed in 1960 under which China gave a grant of Rs. 100 million ($21 million) to cover the Nepalese purchases of equipment, machinery, materials, other commodities and technical services.

3. China (mainland)
   An agreement was signed on 3 October 1961 for the Chinese grant of commodities for financing Chinese aided projects in Nepal.

4. USSR
   An agreement was signed on 10 April 1961 under which the Soviet Union granted to Nepal a loan equivalent to 30 million rubles for the procurement of Soviet equipment and services by Nepal. Nepal also received commodities from the USSR under a commodity aid scheme.

Pakistan

1. Albania
   A trade agreement was signed on 20 September 1963. The agreement provides for most-favoured-nation treatment on a reciprocal basis.
   Exports from Pakistan: raw jute, raw cotton, raw wool and finished products, etc.
   Exports from Albania: petroleum products, minerals, bitumen, cement and construction materials.

2. Bulgaria
   A trade agreement, valid for one year, was signed on 23 February 1962. The agreement was automatically renewable each year unless three months' prior notice of termination was given by either party.
   Exports from Pakistan: raw jute, jute manufactures, cotton, wool, animal waste, cotton yarn, cotton and woollen fabrics, hides and skins, karakulis (lamb skin), leather and leather goods, rice, etc.
   Exports from Bulgaria: machinery and mill works, transport equipment, complete plants, tools and workshop equipment, electrical motors, hoists, transformers and meters, electrical instruments, apparatus and appliances, automatic telephone apparatus, ball-bearings, iron and steel, scientific instruments, chemicals, fertilizers, drugs and medicines, etc.

3. China (mainland)
   Barter agreements were signed on 15 March 1953 and in June 1954. Commodity lists were included in the agreements with quotas.

4. China (mainland)
   An agreement was signed on April 1956 for the supply of 125,000 tons of Chinese coal to Pakistan. Another agreement was signed on 10 May 1956 for the supply of 300,000 tons of Chinese coal to Pakistan. On 13 July 1956, a contract was concluded for the supply of 60,000 tons of Chinese rice to Pakistan against payment in Pakistani rupees.

5. China (mainland)
   A barter agreement, valid through 1958, was signed on 3 June 1958 for the supply of 150,000 tons of Chinese rice against 15,000 bales of Pakistan's cotton.

6. China (mainland)
   A barter agreement, valid through 1958, was signed on 8 August for the supply of 100,000 tons of Chinese rice for Pakistan's cotton and jute of equivalent value.

7. China (mainland)
   A trade agreement, valid for one year, from 5 January 1963, was signed on 4 January 1963. The agreement is renewable automatically each year unless three months' prior notice of termination was given by either party.
   Exports from Pakistan: cotton textiles and cotton yarn, raw jute and jute manufactures, leather and sports goods, surgical instruments, chrome ore and newsprint.
   Exports from mainland China: metals, steel products, coal, cement, machinery, chemicals, raw materials and cereals, etc.

8. Czechoslovakia
   A trade agreement, valid for one year, from 15 August 1956 to 14 August 1957, was signed on 15 August 1956. The agreement was automatically renewable each year if no notice of termination was given by either party three months before its expiry. It replaced the previous agreement of 28 June 1952. No quotas were provided for.
   Exports from Pakistan: jute, jute goods, cotton, wool, tea, herbs, crude drugs, hides and skins, leather goods, etc.
   Exports from Czechoslovakia: machinery, electrical equipment, X-ray apparatus, film plates, iron and steel, diesel generators, laboratory equipment, newsprint, etc.
   Payments were to be made in pounds sterling unless otherwise agreed upon.

9. Czechoslovakia
   A barter agreement was concluded in November 1959 envisaging a total trade of Rs. 6.5 million ($1.36 million) each way.
   Exports from Pakistan: cotton, jute and tea.
   Exports from Czechoslovakia: iron and steel, machinery and parts, tractors, trucks and cars, chemicals and dyes, etc.
   Payments were to be made in Czechoslovak crowns.

10. Hungary
    A trade agreement, valid for one year, from 30 July 1956 to 29 July 1957, was signed on 30 July 1956. It replaced the agreement of 9 October 1950. The agreement provided for reciprocal most-favoured-nation treatment and was automatically renewable every year if no notice of termination was given three months before its expiry.
    Exports from Pakistan: jute, jute goods, cotton, wool, tea, tobacco, hides and skins, sport goods, herbs and crude drugs, leather goods, etc.
    Exports from Hungary: machinery, electrical equipment, motor boats, hydro-electric and thermal power plants,
Pakistan (continued)

chemical plants, diesel engines and diesel generators, laboratory equipment, etc.
Payments were to be made in transferable sterling unless otherwise agreed to. No quotas were provided for.

11. Poland

A trade agreement, valid for one year up to 30 June 1951, was signed in 1950.
Exports from Pakistan: jute, cotton, rice and tea.
Exports from Poland: coal, metalware, chemicals and textiles.

12. Poland

A trade agreement, valid for one year, was signed on 4 February, 1956. The agreement was automatically renewable each year if no notice of termination was given by either party three months before its expiry. Most-favoured-nation treatment was mutually accorded.
Exports from Pakistan: jute goods, cotton, wool, tea, hides and skins, sports goods, herbs and drugs, saltpetre, surgical instruments, chrome, handicrafts, etc.
Exports from Poland: sugar factories, refrigeration plants, cement and concrete factories, cars, machinery, electrical equipment, tractors, chemicals and pharmaceuticals, coal-tar, dyes, photographic paper, X-ray films, glassware, etc.
Payments were to be made in pounds sterling unless otherwise agreed to. No quotas were provided for.

13. Poland

A barter agreement, valid through 1958, was signed on 8 August 1958 for the supply of 50,000 tons of Polish coal for Pakistan's cotton.

14. Romania

A trade agreement was signed on 21 February 1962.
Exports from Pakistan: jute, jute goods, cotton, wool, rice, hides and skins, dried and salted fish, chromite and leather.
Exports from Romania: heavy machinery and capital goods, steel billets, galvanized iron sheets, petroleum products, chemicals, wood and timber, yarn, sugar and cement.

15. USSR

A trade and payments agreement, valid for one year from 3 September 1956 to 2 September 1957, was signed on 27 June 1956. The agreement was to remain valid if no notice of termination was given three months before the expiry. Most-favoured-nation treatment was mutually accorded.
Exports from Pakistan: jute and jute manufactures, cotton, wool, hides and skins, tanned leather, furs, tea, oilseed cakes, herbs and drugs, saltpetre, kapok, guts, sports goods, etc.
Exports from the USSR: various kinds of industrial equipment, machine-tools and instruments, tractors and agricultural machinery, ball and roller-bearings, metals, chemicals, petroleum and products, timber, newsprint, chemical fertilizers, dyestuffs, rubber tyres and tubes, films, medicines, etc.
Payments were to be made in Pakistan rupees with balance to be convertible into pounds sterling. The USSR was to maintain rupee accounts at commercial and State banks in Pakistan. Settlement at the termination of the agreement was to be in pounds sterling.

16. USSR

A barter agreement was signed on June 1959 for the exchange of Pakistan's jute with 50,000 tons of Soviet cement.

17. USSR

A barter agreement was signed on 30 November 1959 for the exchange of Soviet watches and cycles valued at about Rs 400,000 (about $84,000) with Pakistan shoes.

18. USSR

An agreement was signed on 4 March 1961, under which the Soviet Union granted a loan equivalent to $30 million for oil exploration in Pakistan. The loan carried an interest of 2½ per cent per annum and was repayable in twelve years in Pakistan rupees, to be used by the Soviet Union for purchase of goods from Pakistan.

19. USSR

A barter agreement was signed on 30 August 1963 for exchange Soviet railway sleepers worth Rs 5 million (£375,000) against Pakistan's jute of the same value.
ACTIVITIES OF THE ECONOMIC COMMISSION FOR ASIA AND THE FAR EAST RELATED TO THE UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT*

RECENT DISCUSSIONS IN THE ECONOMIC COMMISSION FOR ASIA AND THE FAR EAST ON THE UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

NOTE BY THE ECAFE SECRETARIAT

1. At its twentieth session, in March 1964, the Economic Commission for Asia and the Far East gave a great deal of its attention to the subject of the United Nations Conference on Trade and Development. The Commission heard with particular appreciation and interest a statement by Mr. Raúl Prebisch, Secretary-General of the Conference, who attended the session for that purpose and had consultations with the regional members of the Commission.

2. The Commission stressed that the Conference on Trade and Development presented a unique opportunity for the developing countries, in co-operation with the developed countries, to formulate new policies and programmes in the related fields of trade and development and that no effort should be spared to achieve that objective.

3. In the discussion on the various substantive questions on the agenda of the Conference, great stress was placed on the necessity of (i) formulating and implementing an integrated series of measures for increasing access to markets in developed countries for the exports of primary, semi-manufactured and manufactured goods from the developing countries and for eliminating all barriers to such exports; (ii) evolving international measures to ensure stable and remunerative prices for exports of primary products of the developing countries and to secure a rational relationship between the price of capital goods and the prices of the export products of the developing countries in the context of the declining trend of prices of primary commodities and the increase of the prices of capital goods; and (iii) improvement of institutional arrangements including the establishment of new machinery, and methods for implementing the decisions of the Conference.

4. On the vital question of institutional arrangements, while it was recognized that the final decision would have to be taken at the Conference, the Commission requested the Secretary-General of the United Nations to convene the United Nations Conference on Trade and Development regularly at intervals of about two years to review the implementation of the programmes and policies on international trade, and to take appropriate measures for the improvement of institutional arrangements including the establishment of new machinery and methods for implementing the decisions of the Conference. It also strongly recommended that, in any institutional arrangements or machinery that might be established following the Conference, the machinery for inter-governmental co-operation already available in the regional economic commissions as well as any other international machinery, where appropriate, be effectively and fully utilized.

5. The Commission adopted a comprehensive resolution entitled "Teheran Resolution on United Nations Conference on Trade and Development", which is attached to this note.

Transit trade of land-locked countries

6. The four land-locked member Governments of the ECAFE region—namely, Afghanistan, Laos, Mongolia and Nepal—invited the attention of the Commission to the need for giving full recognition to the needs of land-locked countries in the matter of transit trade and to accord them adequate facilities in terms of international law and practice in that regard, taking into account also their requirements resulting from economic development. In this connexion, the Commission recalled its own recommendation on the subject adopted at its twelfth session in 1956 and resolution 1028 (XI) of 12 December adopted by the United Nations General Assembly at its eleventh session (556th plenary meeting).

7. The Commission recognized that the question of institutional arrangements was of critical importance to the land-locked countries and therefore strongly recommended that it be given urgent and sympathetic consideration at the forthcoming United Nations Conference on Trade and Development. It was appreciated that the land-locked countries of the ECAFE region had entered into bilateral agreements with their neighbouring countries for the purpose of securing transit facilities and that these agreements were being implemented in a spirit of mutual understanding and good will. Nevertheless, the Commission recognized that international recognition should be given to the requirements of the land-locked countries in the form of a revised and adequate international instrument or

* The attached document was prepared by the secretariat of the United Nations Economic Commission for Asia and the Far East (ECAFE). It is submitted in connexion with item 10 of the provisional agenda on the subject: "Expansion of international trade and its significance for economic development" (item 1 of the list of main topics). See Interim Report of the Preparatory Committee (first session), in Vol. VIII of this series.
convention. In that connexion, it was pointed out that the Barcelona Convention concluded as far back as 1921 should be re-examined and that an effective and adequate international convention should be formulated to ensure the freedom of transit trade of land-locked countries. With a view to achieving that objective, the Commission recommended that the forthcoming United Nations Conference on Trade and Development establish a committee especially to deal with that subject, and also noted that the land-locked countries proposed to submit to the Geneva Conference two draft conventions on the subject.

8. The Commission adopted a resolution on the subject, which is attached to this note.

Trade with centrally-planned economies

9. The Commission noted that several countries in the ECAFE region had developed trade with the centrally-planned economies in recent years and that such trade had expanded rapidly although it still occupied a modest share in their total trade. Possibilities of expanding that trade, given favourable conditions, to higher levels in both directions, in raw materials as well as in manufactured goods, were pointed out. In this connexion, the favourable influence of entering into long-term trade agreements and contracts was mentioned. It was also suggested that the expansion of trade of developing countries with the centrally-planned economies was related to the latter's trade with the developed countries and that the United Nations Conference on Trade and Development should consider the problem as an integral whole.

10. It was suggested by some delegations that, with a view to expanding trade with developing countries, the centrally-planned economies should provide increasing access to non-traditional goods from the developing countries.

Shipping and ocean freight rates

11. The Commission noted with satisfaction that the subject of ocean freight rates would be dealt with at the forthcoming United Nations Conference on Trade and Development and that the ECAFE secretariat had submitted to the Conference a note showing the difficulties faced by various ECAFE countries, the measures taken by them to reduce freight charges and their views on that subject. The ECAFE countries attached great urgency to the need for regional and international measures for suitably modifying the structure of ocean freight rates with a view to promoting the trade of developing countries.

ANNEXES

50 (XX). THEHAN RESOLUTION ON UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

The Economic Commission for Asia and the Far East

I

Recognizing the expectations of the developing countries that the United Nations Conference on Trade and Develop-

ment offers an opportunity for the manifestation, in the field of trade and development, of the same political inspiration and will that were responsible for the Charter of the United Nations signed at San Francisco;

Considering that the rapid development of the economies of the developing countries for raising the standard of living of their people is vital for the preservation of international peace and the attainment of collective economic security;

Realizing that a new international division of labour and new patterns of production and trade, which are necessary for a truly interdependent and integrated world economy, require a dynamic international trade policy based on the need for providing special assistance and protection for the less-developed parts of the world;

Noting the valuable preparatory work carried out by the Preparatory Committee for the United Nations Conference on Trade and Development at its three sessions and by the Secretary-General of the Conference in presenting the principal issues and integrated programmes of measures in the related fields of trade and development;

Noting further with interest the conclusions reached at recent meetings held in other regions;

Recognizing the need:

(a) to promote the rapid and sustained expansion of the export earnings of the developing countries;

(b) to ensure that their share in the growth of international trade is commensurate with the needs of their economic development;

(c) to provide free access in the markets of the developed countries for the primary products of the developing countries and to stimulate their consumption in the developed countries;

(d) to devise measures for ensuring stable and remunerative prices for the exports of primary products of the developing countries and to improve their terms of trade;

(e) to help increase the volume of exports of the developing countries in primary products, both raw and processed, and allow free access to the exports of manufactured and semi-manufactured goods from the developing countries; and

(f) to improve the invisible trade of the developing countries, particularly by reducing their payments for freight and insurance and the burden of their debt charges;

Noting with concern the steep rise in the prices of capital goods and the declining trends in the prices of the products of the developing countries;

Emphasizing that regional economic groupings should adopt outward-looking policies;

Recognizing further the desirability of the adoption of concrete measures to achieve the creation of conditions for the expansion of trade between countries at a similar level of development, at different stages of development or having different systems of social and economic organization;

1. Considers that the Joint Statement adopted by the developing countries at the Preparatory Committee for the United Nations Conference on Trade and Development and in General Assembly resolution 1897 provides a
reasonable basis for co-operative action by developed and developing countries at the Conference;

2. Further considers that sympathetic understanding, mutual accommodation and concerted action on the part of the developing countries are a vital prerequisite not only for the immediate success of the Conference but also for their long-term interests;

3. Urges the developing member countries of the ECAFE region to consult and co-operate among themselves and with the developing countries in other regions closely and in a spirit of mutual good will with a view to reaching amicable and mutually acceptable solutions;

4. Requests the ECAFE secretariat to offer necessary assistance to the countries of the region in dealing with the issues to be taken up at the Conference;

5. Further urges the developed countries to take necessary steps for achieving the purpose of this resolution, including:

(a) progressive reduction and early elimination of all barriers and restrictions impeding the exports of the developing countries, without reciprocal concessions on their part;

(b) refraining from imposing new tariff and non-tariff barriers to such exports;

(c) reduction and gradual elimination of differences in the tariffs as between raw materials and products processed therefrom in the developing countries;

(d) help increase in the volume of exports of the developing countries in primary products, both raw and processed, and stabilization of prices at reasonable and remunerative levels and allow free access to the exports of manufactured and semi-manufactured goods from the developing countries, and initiate an active export promotion drive on an international basis on behalf of all developing countries;

(e) extending non-discriminatory preferential treatment to imports of selected products originating in the developing countries as a whole; and

(f) providing more adequate financial resources on favourable terms so as to enable the developing countries to increase their imports of the capital goods and industrial raw materials essential for their economic development, and better co-ordination of trade and aid policies;

6. Emphasizes the need for a rational relationship between the prices of capital goods and the prices of the products of the developing countries;

7. Strongly recommends that the Conference make necessary international arrangements to ensure the effective implementation of the recommendations made in this resolution;

8. And urges the Conference to take concrete measures for the creation of conditions for the expansion of trade between countries at a similar level of development, at different stages of development or having different systems of social and economic organization.

II

Considering that the series of steps enumerated above and the further steps that would have to be taken to expand the export earnings of the developing countries would, by increasing their purchasing power, contribute to the economic growth of the developed countries themselves and help achieve an integrated growth of the world economy as a whole;

Appeals to the developed countries to assist the Conference in taking positive decisions on appropriate policies and institutional arrangements, taking into account their own long-term interests.

III

Noting the criteria specified in paragraph 180 of the report of the second session of the Preparatory Committee for any change in institutional arrangements or for any new machinery;

Realizing that the existing institutional arrangements are inadequate for the systematic and effective formulation and implementation of the policies and measures required by the developing countries in the related fields of trade and development, and, therefore, call urgently for improvement through modification, adaptation, co-ordination and other possible means;

1. Requests the Secretary-General of the United Nations to convene the United Nations Conference on Trade and Development regularly about every two years to review the implementation of the programmes and policies on international trade, and to take appropriate measures for the improvement of institutional arrangements including the establishment of new machinery and methods for implementing the decisions of the Conference; and

2. Strongly recommends that in any institutional arrangements or machinery that may be set up following the United Nations Conference on Trade and Development, the machinery for inter-governmental co-operation already available in the regional economic commissions as well as any other international machinery, where appropriate, be effectively and fully utilized.

(Resolution unanimously adopted at the 307th meeting, 12 March 1964)

51 (XX). TRANSIT TRADE OF LAND-LOCKED COUNTRIES

The Economic Commission for Asia and the Far East

Recalling the resolution on the subject passed at the eighth session of its Committee on Industry and Trade (January 1956), and approved by its Commission at its twelfth session (2 February 1956), recommending:

"... that the needs of land-locked Member States and members having no easy access to the sea in the matter of transit trade be given full recognition by all Member States and that adequate facilities therefore be accorded in terms of international law and practice in this regard";

Noting the resolution on the subject passed at the 656th plenary meeting of the United Nations General Assembly recognizing:

"... the need of land-locked countries for adequate transit facilities in promoting international trade . . ." and inviting the Governments of Member States

"... to give full recognition to the needs of land-locked Member States in the matter of transit and trade and,
therefore, to accord them adequate facilities in terms of international law and practice in this regard, bearing in mind the future requirements resulting from the economic development of the land-locked countries."

*Noting* also the coming into force of the High Seas Convention under which the right of land-locked countries has been preserved;

*Noting* the resolution of the ECAFE Ministerial Conference of 1963 on Asian Economic Co-operation recognizing:

"... the right of free transit for land-locked countries and the special considerations which apply to their transport and transit problems and the importance of the relationship of these problems to questions of regional co-operation and the expansion of intra-regional trade;";

*Noting further* with satisfaction that the Preparatory Committee of the United Nations Conference on Trade and Development at its third session has agreed to include the subject in the agenda of the Conference under its item 10(e) "Principles governing international trade relations and trade policies conducive to development";

*Recognizing* that the subject is of the utmost importance in the economic development of land-locked countries of Asia, Africa, Europe and Latin America which form one-fifth of the nations of the world;

*Strongly recommends* that the subject be given urgent and sympathetic consideration at the forthcoming United Nations Conference on Trade and Development with a view to formulating an adequate and effective international convention to ensure the freedom of transit trade of land-locked countries;

*Notes* that the following documents will be placed before the Conference by the land-locked countries of the ECAFE region:

1. Right of free access to the seas: Principles enunciated by the Preliminary Conference of land-locked States;
2. Draft convention drawn up by the representatives of Afghanistan, Laos and Nepal to replace the Barcelona Statute on Freedom of Transit;

*Recommends further* that the forthcoming United Nations Conference on Trade and Development establish a committee specially to achieve the above objectives.

*(Resolution unanimously adopted at the 308th meeting, 14 March 1964)*
LATIN AMERICA AND THE UNITED NATIONS CONFERENCE
ON TRADE AND DEVELOPMENT*

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NOTE

The designations employed and the presentation of the material in this publication do not imply the expression of any opinion whatsoever on the part of the ECLA secretariat concerning the legal status of any country or territory or of its authorities, or concerning the delimitation of its frontiers.
INTRODUCTION

The Economic Commission for Latin America, at its tenth session (Mar del Plata, Argentina, 6 to 17 May 1963), took note of General Assembly resolution 1785 (XVII) and Economic and Social Council resolution 917 (XXXIV), by virtue of which the United Nations Conference on Trade and Development was convened.

This development was considered with the greatest interest by the Commission, and there was unanimous agreement that the Conference on Trade and Development would provide Latin America with an outstanding opportunity for bringing home to world opinion the serious nature of its trade problems. The Commission accordingly adopted resolution 221 (X), in which it recommends the ECLA secretariat to concentrate its efforts on the preparation of those studies which are intended for the said Conference, with a view to seeking ways and means of solving Latin America's foreign trade problems and meeting the requirements of its economic development. It was further recommended that such studies should be developed in such a way that they may provide sufficient data to enable the Latin American countries to adopt a concerted position at the Conference. Lastly, the secretariat was requested to hold a seminar on the United Nations Conference on Trade and Development, with the co-operation of specialists appointed by the Governments of all the Latin American countries.

In fulfilment of this request, the secretariat has prepared the following report and has organized the Meeting of Latin American Government Experts on Trade Policy which, at the kind invitation of the Government of Brazil, is to open in Brasilia on 20 January 1964. The report will be discussed at that meeting and consideration will be given to the view that the Latin American countries intend to present to the Conference at Geneva.

It should be pointed out that a group of eminent Latin American consultants have given the secretariat the benefit of their wide experience and have made valuable suggestions on the preparation of the present report. The consultants had two meetings with members of the ECLA secretariat in Santiago, Chile; the first, in October 1963, to discuss the basic ideas of the report, and the second, in December of the same year, to analyse the draft prepared by the secretariat. This broad exchange of views was the basis for the final version of the document.

The consultants invited by the secretariat served strictly as experts and in a personal capacity. The following experts took part in one or both of these meetings:

- Eduardo Figueroa, former Minister for Financial Affairs, Chile;
- Plácido García Reynoso, Under-Secretary for Industry and Commerce, Mexico;
- Adalberto Krieger Vasena, former Minister for Financial Affairs, Argentina;
- Julio Lacarte, Uruguayan Ambassador to the Federal Republic of Germany;
- Carlos Lleras, Senator and former Minister for Financial Affairs, Colombia;
- Marcio do Rego Monteiro, of the Planning Service of the Office of the President, Brazil;
- Jorge Sol, former Minister for Financial Affairs, El Salvador;
- Enrique Gastón Valente, Agricultural Attaché, Argentine Embassy to the United States of America.

The report comprises the following chapters:

I. Foreign trade and economic development of Latin America
II. The main obstacles to an expansion of Latin America's foreign trade
III. Future prospects and lines of action
IV. Principal background data on the process of establishing a new world trade order
V. Requisites for a new structure of international trade and ways of achieving such a structure

The first four chapters contain an analysis of the problems posed by trade within the context of Latin America's economic development, a description of the present structure of international trade, and other data that must be taken into account in attempting to formulate a trade policy.

Chapter V sets forth the conclusions derived from the study and formulates suggestions for seeking solutions to Latin America's foreign trade problems which are dangerously restricting its economic growth. These suggestions were submitted to the Meeting of Latin American Government Experts on Trade Policy, held at Brasilia from 20 to 25 January 1964, and served as the basis for its discussions. The Meeting, in turn, adopted a number of conclusions that are closely in line with those contained in the present document (see Report by the secretariat on the Meeting of Latin American Government Experts on Trade Policy).

LETTER OF TRANSMITTAL FROM THE GROUP OF LATIN AMERICAN EXPERTS WHO ACTED AS CONSULTANTS TO THE SECRETARIAT IN THE DISCUSSION OF LATIN AMERICA'S INTERNATIONAL TRADE PROBLEMS

Santiago, 17 December 1963

To the Executive Secretary of the Economic Commission for Latin America

Sir,

At its tenth session, held at Mar del Plata, the Economic Commission for Latin America requested its secretariat to give priority to the study of the problems that were to be discussed at the United Nations Conference on Trade and Development and to prepare a seminar at which the Latin American Governments could consider their position with respect to those problems prior to the said Conference. In compliance with these recommendations, you were kind enough to request our co-operation as consultants, and thus, in the course of two series of meetings held from 9 to 16 October and from 9 to 17 December, we had an opportunity of discussing with the secretariat experts, under your able leadership, the world trade situation in general and, in
particular, the effects of its evolution in recent years on our countries' rate of development. Certain general guide-lines were laid down, and the secretariat then proceeded to expound and substantiate these ideas in a draft report, to a major part of which we have devoted careful consideration. We are essentially in agreement with the structure of this study, the economic analyses on which it is based and the conclusions formulated.

There is no room for doubt as to the deterioration of the relative position of the developing countries within the world economy as a whole, and the role played in this unfortunate turn of events by existing patterns of foreign trade. It becomes daily more evident that the objectives envisaged by the General Assembly of the United Nations, when it described the sixties as a "development decade", are meeting with frustration and that the immense and increasing disparity between some countries and others is defeating the international co-operation efforts made in recent years. The testimony of the report is conclusive in these respects, as far as they concern Latin America in particular, and all the characteristic features of the situation are clearly defined, together with the mechanism of the international phenomena to which it is largely due and by which it is still being aggravated. The deterioration of the terms of trade, the decline in the rate of development, the steadily increasing burden of financial services, the consequent contractions of external purchasing power for which no satisfactory compensation can be obtained through mere financial operations, the distortions warping the traditional mechanism of external transactions, the increasing rigidity in the volume and composition of imports, and the decrease in international reserves, are objectively demonstrated. In face of all this evidence, it is easy to understand the alarm with which various international agencies view the present situation and the interest displayed by distinguished writers and statesmen in the study of formulas whereby it can be metamorphosed.

The causes that have brought about this state of affairs are of widely differing kinds. Some relate to the very nature of Latin America's traditional exports, to the small number of commodities they comprise, to the limited elasticity of consumption in respect of certain items and to over-production in other instances. But other determining factors are constituted by serious defects in the organization of world trade; autarkical trends and discriminatory practices whose impact on Latin America is direct and profoundly disturbing; regulations and revenue duties that restrict demand; shortcomings in the action of the existing agencies; and the inflexible application of principles whose inequitable consequences are only now beginning to be generally recognized.

The outlook for the next few years, if radical and timely reforms are not introduced, is gloomy indeed. By the end of the present decade, the proportions of the deficit in external resources will be incompatible not only with acceptable rates of development but even with the maintenance of order and normality in economic and social life.

Hence it is patent that concepts and institutions must be reviewed with an open mind, new rules and principles must be promulgated, and measures that will alter the present course of events must be put into effect. This need has already been recognized by the international agencies, and thence it came about that the United Nations Conference on Trade and Development was convened. From this Conference intensive and co-ordinated action must emanate, and the Latin American countries must call it forth and then give it vigorous impetus, for on it will largely depend their own future and the stabilization of the entire world economy.

A more efficient integration of international trade is clearly the foundation-stone for the indispensable reforms—integration with due regard to the special patterns created by the formation of international communities and associations at the level of specific economic relationships; to the fact that an important group of countries lives and acts under an economic and social system based on principles different from those prevailing among the western nations; and to the vast disparities in stages and rates of development to which allusion has already been made. The establishment of free-trade areas and common markets should not be reflected in an intensification of trends towards self-sufficiency which run counter to the healthy expansion of world trade and generate serious distortions in trade flows. Similarly, it is essential to recognize the necessity of maintaining normal and stable economic relations between countries belonging to different systems on the basis of principles and practices that must be discussed with the requisite frankness for genuine agreement to be reached. The "co-operative coexistence" of the two groups—the countries characterized by a market economy and the centrally-planned economies—is of importance not only for the great nations composing them but also for the developing countries, which will find in this new climate positive opportunities for the expansion of their trade.

Lastly it is clear that a true integration of international trade cannot fail to take account of the role such trade plays in income distribution and in determining the immense disparities now observable. If the growth of trade is to be steady and lasting the external purchasing power of the developing countries must be substantially increased, and they must secure an equitable share in the income increment, so that the present tremendous gap between them and the industrialized countries may thus be narrowed, instead of continuing to widen, as is the case today. The perpetuation of existing circumstances would operate as a factor making for disintegration, with consequences too far-reaching to be predicted.

The new process must be based, in our opinion, on acceptance of certain ideas which lie behind the recommendations formulated in the report to which we refer. First and foremost, it can no longer be considered equitable to apply the same standards and regulations to countries at different stages of development and totally unlike as regards the resources and technology at their disposal. Such uniform treatment de facto implies inequity and unquestionably redounds to the detriment of the weaker party. The
whole of the economic history of the last few years bears witness to the truth of this assertion.

If we start from this basis, already accepted by eminent figures in the industrial countries, we necessarily arrive at a series of conclusions of great importance for the regulation of international trade. Thus, for example, in the field of tariff reductions there would be no place for the exaction of strict reciprocity. Nor could the saving clauses established possibly be the same for countries with very limited resources and for those possessing a vast range of instruments and media which make it relatively easy for them to eliminate the distortions that the cross-currents of international relations might possibly cause in this or that sector of their economic organization.

Another case in point is afforded by the unconditional application of the most-favoured-nation clause. The principles underlying it must be reconsidered in the light of the preferences that the industrial countries should grant to the less developed economies.

Other guiding principles for a development policy in relation to international trade might also be enumerated. They would include the necessity of adopting measures which will facilitate the diversification of exports and the access of manufactured goods from the developing countries to the areas possessing greater purchasing power; the undesirability of setting up fiscal systems in the advanced countries which raise the prices of goods from the developing countries and consequently restrict consumption of such products; the inadmissibility of practices which, for the sake of protecting some developing countries, do manifest harm to others; the urgent need for the centrally-planned economies to adjust the principles of their economic system to the requirements of a vigorous and steady expansion of world trade; the importance of rectifying those autarkical trends which, under new guises, have seriously distorted the traditional conditions of trade in certain products. All these principles, and others set forth in detail in the report, provide a basis for the recommendations with which it concludes.

* * *

At no time has it been forgotten that development cannot be achieved through measures of international co-operation alone. Nothing whatsoever can replace a persevering and methodical internal effort. But the forms it must take are well known, and there is no point in recapitulating them here. At all events, it is obvious that the rate of investment required for the attainment of even the modest rate of development contemplated in resolution 1710 (XVI) of the General Assembly, concerning the United Nations Development Decade, cannot be reached in Latin America without a considerable improvement in the region's terms of trade. If this improvement is to be adequate and sustained, substantial reforms must be introduced. Exports must be diversified to prevent continued dependence on the sale of a few basic commodities; industry must be developed on the basis of broader markets; the geographical area of Latin America's trade must be extended; in short, steps must be taken to guarantee the region an external income less subject to fluctuations and a great deal higher than at present, so that it may be able to import the volume of goods and services required for a reasonable rate of development. The attainment of these objectives is the aim of the recommendations presented in the report. The suggestion that the industrial countries should accord a general preference to manufactured goods from the developing economies embodies the idea of diversification, while the proposals relating to the closer integration of world trade are designed to open up new markets.

But we should be the victims of deliberate self-deception if we tried to blink the fact that only over the long term could these and other measures have an appreciable effect on the composition and value of Latin America's exports. Consequently, if a standstill in development is to be averted, it is essential to act at once with respect to traditional exports. This implies basic reforms in certain aspects of the economic policy of the industrial countries, and, in some instances, concerted international action to offset the harmful repercussions of consumption or supply trends in respect of certain products.

In different ways and on different occasions, attention has already been drawn to the pressing need to eliminate tariff duties on tropical products, as well as—within reasonable time limits—internal taxes on consumption of these commodities, and to abolish the various types of preferences at present extended in favour of specific developing countries, often as a *quid pro quo* for other preferences granted to industrial countries. Such measures, whose equity and desirability are obvious, are clearly and judiciously formulated in the recommendations presented in the report. On the one hand, taxes restricting the volume of consumption must be lifted in the interests of all producer countries, especially as they generally affect items which are in plentiful supply, and production of which cannot easily be replaced by other lines. Moreover, it does not seem natural that certain producers should enjoy protection at the direct expense of other developing countries. Discriminatory preferences of this kind have long been the object of criticism and even the Havana Charter already sought to reduce them to a minimum with a view to their subsequent elimination. Paradoxically, today they are more numerous than ever, despite the provisions of the General Agreement on Tariffs and Trade, which is based on the same underlying principles as the Charter.

We sincerely believe that the recommendations of the report on these points would lead to positively beneficial results for all the developing countries. Clearly, moreover, the great industrial countries are in a position to apply, as a means of promoting the development of areas associated with them, measures different from those whose discriminatory character renders them inadmissible for Latin America.

The low elasticity of consumption of tropical products—attributable to various causes—and the limited mobility of the factors of production have conducted, as has been pointed out, to disequilibria in the markets for certain commodities and to a
serious deterioration of the terms of trade. Similar situations seem to be developing in respect of other items from the same source. They must be tackled by means of concerted international action on the part of producers and consumers to remedy the deterioration in question, since it is unfair that countries with a high per capita income should take advantage of the decline in relative prices in ways that are detrimental to the development of the producer countries. In planning such action, allowance will of course have to be made for the peculiar features of the market for each product, the elasticity of consumption, the problem of possible substitution processes, which may involve a prolonged period of over-production, and other factors. But, as a general rule, the commodity agreements already in force and those that may be concluded in the future should alike be administered with the essential aim of remedi­
ing the deterioration of the terms of trade and thus giving producer countries the time and the resources they must have if they are to make the necessary readjustments and diversify their exports. These readjustments and this diversification could hardly be put into effect in an atmosphere of economic crisis, characterized by a strong contraction in external purchasing power.

The situation of the developing countries whose external trade economy is mainly dependent upon temperate-zone products has been given special consideration in the report. The problems arising in this connexion are primarily linked to the protectionist practices that the industrial countries have established in favour of their agricultural production, through tariffs, subsidies and other media, as well as to the surplus disposal programmes they apply. These factors have already determined major distortions in world trade, and it is impossible to view without misgiving the spread and consolidation of trends so seriously prejudicial to the developing countries. In this connexion, what was said of the situation of tropical products still holds good: a well-ordered economic development effort is not even conceivable in the atmosphere of crisis maintained and daily intensified by autarkical practices that encourage anti-economic production and provide a basis for unfair competition in international markets.

The recommendations contained in the report do not overlook the existence of certain situations that affect employment and income levels among the rural population in industrial countries. On the contrary, they take these into account, and seek equitable formulas whereby they can be reconciled with the basic interests of the developing countries. But, since it is nowadays fully recognized that current international trade conditions are severely handicapping development in vast areas of the world, the more affluent countries cannot reasonably object to the idea of tackling their rural population problems by methods that would not have the distorting effect of those applied today.

The contrast between the food surpluses in some parts of the world and in others the chronic shortage of food and the under-consumption mainly imputable to the low income levels of many developing countries is a problem that still subsists, despite all the efforts made in recent times to secure a more rational distribution of foodstuffs. Unquestionably, the forthcoming conference should review the existing mecha­

The report includes important recommendations on several other subjects: problems relating to mining products; encouragement of the processing of basic commodities in their countries of origin; relations among the developing areas; compensatory financing; and the organization that should promote the new international trade policy. This last point is clearly of transcendental importance. World trade can be better integrated and adjusted to the needs of develop­
ment only by means of a prolonged effort which must be made through flexible, dynamic agencies endowed with their own media for attaining the ends pursued. We fully acknowledge what has been achieved so far by the existing institutions, and the relative value of the plans that have been drawn up to remedy the most striking defects observable in the operation of international trade. Nevertheless, it is plain that in their present form such plans are not calculated to meet the imperative demands of an age in which the great majority of the human race is seeking access to the welfare and progress at present enjoyed by only a small number of countries, and in which the principles of international solidarity and common security are clamouring for new patterns of international co­
operation that will be fairer and more effective than those prevailing today.

We believe that the report of the Economic Com­
mision for Latin America will provide the countries of the region with a valuable instrument for the study of the policy they are to pursue at the United Nations Conference on Trade and Development. It is our earnest wish that they may all rally round the standard of principles in whose defence it is more than ever essential to present a united front.

With renewed expressions of our gratitude for your invitation to us to collaborate in the work of the Commission on so vitally important a matter, we have the honour to be, Sir, your obedient servants,

Enrique Gastón Valette

Eduardo Figueroa
Plácido García Reynoso
Adalberto Krieger Vasena
Julio Lacarte
Carlos Lleras
Marcio do Rego Monteiro
Jorge Sol
Chapter I
FOREIGN TRADE AND ECONOMIC DEVELOPMENT OF LATIN AMERICA

A. EVOLUTION OF THE EXTERNAL SECTOR AND ITS EFFECT ON ECONOMIC GROWTH

(1) Decline of the growth rate in Latin America as compared with other areas

1. The present analysis of the state of the Latin American economy and its development prospects shows that there is a pressing need for far-reaching changes in the external and internal conditions of the Latin American countries. Unless these changes are brought about, Latin America will be unable to attain the modest targets established by the United Nations General Assembly under the Development Decade programme or these set forth at the Conference of Punta del Este in 1961. Moreover, many Latin American countries will have serious difficulty in maintaining their per capita income levels.

2. In the post-war period, Latin America did not succeed in creating conditions conducive to sustained economic growth. Although growth rates were satisfactory in the early post-war years, they declined in the fifties and fell short of the targets mentioned above (see table 1). In fact, the annual growth rate of real per capita income slowed down from 4.2 per cent in the early post-war years to 1 per cent in 1955-1960. While there was a slight improvement in 1961, it fell again in the following year to almost zero.

3. The already wide differences between income levels in Latin America and in the economically developed areas of the world have thus been increasing, and the slow tempo of development in Latin America compares very unfavourably with the rapid growth in other areas. The higher rates achieved by other areas in the process of development show that the Latin American economy is affected by specific limiting factors that deepen the misgivings about the region’s future development (see table 2).

4. There is a growing conviction in Latin American government, political and social circles that if Latin American societies are to be set on the right road to development, certain institutional, social and economic reforms must be instituted. These reforms will permit proper use of the region’s abundant natural and human resources through the application of a planned economic and social policy which, by allowing efficient methods and techniques to be introduced, will effect a rapid increase in productivity and ensure a more equitable distribution of income.

5. While many Latin American countries have taken the first steps to introduce these reforms, and some countries are already applying them, generally speaking the desired goals are still far from being attained.

6. Latin America’s inadequate development and the deterioration of its foreign trade are the main reasons for the slowing-down of the growth rate and for the danger not only that the results expected from the above-mentioned reforms will fail to materialize,

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### Table 1
Latin America: Annual cumulative rates of growth of the product and of total and per capita real income, 1945-1962

<table>
<thead>
<tr>
<th>Year or period</th>
<th>Total Gross product</th>
<th>Total Real income</th>
<th>Per capita Gross product</th>
<th>Per capita Real income</th>
</tr>
</thead>
<tbody>
<tr>
<td>1945-1950</td>
<td>5.7</td>
<td>6.8</td>
<td>3.2</td>
<td>4.2</td>
</tr>
<tr>
<td>1950-1955</td>
<td>4.7</td>
<td>4.5</td>
<td>2.0</td>
<td>1.7</td>
</tr>
<tr>
<td>1955-1960</td>
<td>4.1</td>
<td>3.6</td>
<td>1.3</td>
<td>0.8</td>
</tr>
<tr>
<td>1961</td>
<td>5.4</td>
<td>4.8</td>
<td>2.6</td>
<td>2.0</td>
</tr>
<tr>
<td>1962</td>
<td>3.1</td>
<td>3.1</td>
<td>0.3</td>
<td>0.3</td>
</tr>
</tbody>
</table>

Source: ECLA estimates based on national statistics.

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### Table 2
Annual growth rates of the total and per capita gross product in various countries and areas of the world, 1950-1961

<table>
<thead>
<tr>
<th>Country or area</th>
<th>Gross domestic product</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total</td>
</tr>
<tr>
<td>Under-developed areas</td>
<td>4.6</td>
</tr>
<tr>
<td>Latin America</td>
<td>4.5</td>
</tr>
<tr>
<td>Developed areas</td>
<td>3.7</td>
</tr>
<tr>
<td>Australia</td>
<td>3.9</td>
</tr>
<tr>
<td>Canada</td>
<td>3.7</td>
</tr>
<tr>
<td>EEC countries</td>
<td>3.6</td>
</tr>
<tr>
<td>European countries of the OECD</td>
<td>4.6</td>
</tr>
<tr>
<td>Japan</td>
<td>9.5</td>
</tr>
<tr>
<td>New Zealand</td>
<td>3.5</td>
</tr>
<tr>
<td>United States</td>
<td>3.1</td>
</tr>
<tr>
<td>Countries with centrally-planned economies¹</td>
<td>9.7</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>7.7</td>
</tr>
<tr>
<td>Czechoslovakia</td>
<td>8.8</td>
</tr>
<tr>
<td>East Germany</td>
<td>6.0</td>
</tr>
<tr>
<td>Hungary</td>
<td>7.7</td>
</tr>
<tr>
<td>Poland</td>
<td>10.2</td>
</tr>
<tr>
<td>Soviet Union</td>
<td>10.5</td>
</tr>
<tr>
<td>Yugoslavia</td>
<td>7.3</td>
</tr>
</tbody>
</table>


¹ For Canada, the European countries of OECD, Latin America and the United States, the figures relate to the period 1950-1961; for the developed and under-developed areas considered as a whole, and in general for the countries with centrally-planned economies, they are for 1950-1959. For Japan they are for 1960-1961, and for Australia and New Zealand they are for 1950/51-1960/61.

¹ Provisional.

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¹ Net physical product.
but that the application of the reforms themselves will be severely hampered.

7. Current international economic policy is marked by a considerable decline in the demand for Latin American products, which can no longer play its traditional role as a dynamic factor, and the unsatisfactory state of Latin America's foreign trade constitutes the main bottleneck in carrying out the region's development plans. Consequently it is useful to see how Latin America's foreign trade has developed in relation to world trade.

(2) Slow expansion of Latin America's foreign trade

8. To judge by the dollar value of exports, Latin America's foreign trade represented between 7 and 8 per cent of the world total before the Second World War, when there was already a relative decline, since before the Depression (1928) Latin America's share had been over 9 per cent.

9. In the first post-war years Latin America's share increased to 11 per cent, but since then it has been declining and today represents only 6.5 per cent of world exports (see table 3).

10. There are two main reasons for this relative decline in Latin American exports: the first, of a general character, is the relative expansion of trade in manufactures and the second, which is more specific, is the contraction in Latin America's supply of primary commodities to its traditional markets in the developed areas.

11. This decline has not been offset by any increase in trade with other areas (industrialized or in the course of development) except for the area of the centrally planned economies, where there was some increase, although relatively small. Only in Cuba's case has there been an almost complete shift of foreign trade. The combined effect of the various factors is shown in table 4, which gives Latin America's percentage share of the total imports effected by countries in other areas.

12. In 1948 Latin American exports represented 35 per cent of the total imports of the United States, whereas they now constitute only 22 per cent, a percentage which is also below that for the pre-war period. In the countries of the European Economic Community Latin America's share has shrunk from 8 or 9 per cent to 5.5 per cent. There has been a similar trend in Latin American exports to the countries of the European Free Trade Area, as well as to Japan, in spite of its extremely high growth rate, and to the areas in the process of development.

13. The countries with centrally-planned economies are the only exception to this trend, since Latin America's share of their total imports has increased, largely as a result of the concentration of Cuban exports to that area, which also partly explains the decline in Latin America's share of total United States imports (see again table 4).

14. Since the above analysis of Latin America's share of world trade was based on current export values, the evolution of prices and quantities may have affected the percentages. In fact it can be shown that the reduction in the share of Latin American exports was due to two factors: (a) the fall in relative prices and unit costs of Latin American products, and (b) the comparatively small expansion of the volume of exports. The effect of the first factor is studied in section B. The slow growth of the volume of Latin American exports is clearly shown by a few statistics (see figure I and table 5).

15. In 1962 the volume of Latin America's exports was only 70 per cent more than in 1938, and if petroleum is excluded the increase amounts to only 40 per cent. During the same period the volume of world exports more than doubled, and exports from the United States, Canada, and Western Europe nearly tripled. Similarly, other areas in the course of development or with an economic structure similar to that of Latin America, increased their foreign trade to a much greater extent: Australia, New Zealand and South Africa by 130 per cent, and Central Africa by 150 per cent.

16. If the volume of Latin American exports before the Depression is taken as a basis of comparison, the striking fact emerges that exports from the region as a whole have increased by only 30 per cent and, if petroleum is excluded, have changed hardly at all.

17. Even over the past seven or eight years, when the tempo of Latin American sales was stepped up, it still lagged behind that of other areas. Thus Latin America appears to be more or less excluded from the

<table>
<thead>
<tr>
<th>Year</th>
<th>Developed areas of Latin America</th>
<th>Under-developed areas</th>
<th>Countries with centrally-planned economies</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1938</td>
<td>64.7</td>
<td>7.3</td>
<td>17.9</td>
<td>100.0</td>
</tr>
<tr>
<td>1948</td>
<td>63.4</td>
<td>11.4</td>
<td>18.8</td>
<td>100.0</td>
</tr>
<tr>
<td>1952</td>
<td>64.9</td>
<td>8.8</td>
<td>17.5</td>
<td>100.0</td>
</tr>
<tr>
<td>1953</td>
<td>64.5</td>
<td>9.3</td>
<td>16.5</td>
<td>100.0</td>
</tr>
<tr>
<td>1954</td>
<td>63.9</td>
<td>9.3</td>
<td>16.6</td>
<td>100.0</td>
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<tr>
<td>1955</td>
<td>64.4</td>
<td>8.6</td>
<td>16.9</td>
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<td>1956</td>
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<td>1957</td>
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</tr>
<tr>
<td>1958</td>
<td>65.6</td>
<td>7.7</td>
<td>15.4</td>
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<tr>
<td>1959</td>
<td>65.6</td>
<td>7.2</td>
<td>15.3</td>
<td>100.0</td>
</tr>
<tr>
<td>1960</td>
<td>66.8</td>
<td>6.8</td>
<td>14.6</td>
<td>100.0</td>
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<tr>
<td>1961</td>
<td>67.5</td>
<td>6.5</td>
<td>14.3</td>
<td>100.0</td>
</tr>
<tr>
<td>1962</td>
<td>67.2</td>
<td>6.5</td>
<td>14.2</td>
<td>100.0</td>
</tr>
</tbody>
</table>


*The tables were compiled on the basis of the figures appearing in the customs registers of the Latin American countries. It is recognized that changes are made in the destination of exports: for example, the share of some areas, such as that of the centrally-planned economies, may in fact be greater, and therefore the share of other areas less, although the quantitative differences involved in such changes are probably small in relation to the figures given in the tables.
Table 4
Share of Latin American exports in total imports of other areas, 1938-1962
(Percentages)

<table>
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<th>Western Europe</th>
<th>Japan</th>
<th>Total</th>
<th>Under-developed areas</th>
<th>Countries with centrally-planned economies</th>
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<td>5.5</td>
<td>4.5</td>
<td>5.0</td>
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</table>


* Latin American sales as a percentage of the f.o.b. value of total exports to the areas included in the table.

Figure 1
Indices of the physical volume of world exports, by region
(1958 = 100)

Natural scale

Table 5
Index of the quantum of world exports, by area, 1962

<table>
<thead>
<tr>
<th>Quantum of exports 1938 = 100 1948 = 100</th>
</tr>
</thead>
<tbody>
<tr>
<td>Worlda</td>
</tr>
<tr>
<td>Developed areasb</td>
</tr>
<tr>
<td>Under-developed areas</td>
</tr>
<tr>
<td>Africac</td>
</tr>
<tr>
<td>North Americad</td>
</tr>
<tr>
<td>Latin America</td>
</tr>
<tr>
<td>Including petroleum</td>
</tr>
<tr>
<td>Excluding petroleum</td>
</tr>
<tr>
<td>Western Europe</td>
</tr>
<tr>
<td>EECf</td>
</tr>
<tr>
<td>EFTAf</td>
</tr>
<tr>
<td>Middle East</td>
</tr>
<tr>
<td>Including petroleum</td>
</tr>
<tr>
<td>Excluding petroleum</td>
</tr>
<tr>
<td>Australia, New Zealand and South Africa</td>
</tr>
<tr>
<td>Central Africaa</td>
</tr>
<tr>
<td>Asiaa</td>
</tr>
</tbody>
</table>


* Excluding the Middle East but including Japan.

Member countries of the EEC.

Member countries of the EEC.

Member countries of the European Free Trade Association.

Includes the African mainland plus its associated islands.
internal and external expansion of an area of the world economy from which in the past it received strong stimuli to its growth.

(3) Inflexibility in the composition of Latin American exports

18. Latin America as a whole has continued throughout the post-war period to depend on exports of primary commodities in the form of food, raw materials and petroleum, although some of these products have undergone changes as regards the degree of processing they are given.3

19. The commodities concerned represent over 90 per cent of Latin American exports, and it is only the remaining 10 per cent that consist of more finished products which are also largely traditional Latin American trade items. New lines that could lead to diversification and a change in the structure of exports have appeared in the last few years, but only on a relatively small scale (see table 6).

20. As a result of circumstantial factors Latin America entered the world market, during the war and the immediate post-war years, as an exporter of new products, but did not succeed in maintaining the new export lines.

21. Moreover, as table 7 demonstrates, the bulk of the value of its exports is made up of only a few commodities, since five items—petroleum and petroleum products, coffee, sugar, copper and cotton—account for 62 per cent of the total value of the region's sales.

22. Some Latin American countries, such as Peru, Mexico and a few in the Central America area, succeeded in diversifying their exports and achieving a satisfactory economic growth rate. However, this diversification was generally in branches that were traditional lines for other Latin American countries.4 In fact, as table 8 shows, the Latin American countries competed among themselves to a certain extent in supplying world demand.

(4) Maintenance of Latin American foreign trade in its traditional market areas

23. In the pre-war period 30 per cent of Latin American exports went to the United States, 17 per cent to the United Kingdom, 30 per cent to the other Western European countries and less than 2 per cent to Japan. Since 6 per cent was absorbed by the Latin American countries themselves, the share of other developing areas5 and of the centrally-planned economies was thus very small.

24. During the war the volume of exports decreased considerably and there was a change in the direction of trade. For obvious reasons, the share going to western Europe and Japan shrank and the share of the United States expanded. These changes, which

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3 See Methodological Annex for the classification of these commodities.

4 Chiefly the Netherlands Antilles.

5 However, Peru and Chile have been able to introduce some new lines in recent years, such as fish meal, steel and timber products.
Table 8  
Latin America: Share of individual countries in exports of the main agricultural products, 1948-1951 and 1958-1960*  

<table>
<thead>
<tr>
<th>Product and exporting country</th>
<th>Percentage of total volume 1948-1951</th>
<th>Percentage of total volume 1958-1960</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Bananas</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Brazil</td>
<td>13.2</td>
<td>10.3</td>
</tr>
<tr>
<td>Colombia</td>
<td>10.1</td>
<td>8.7</td>
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<tr>
<td>Costa Rica</td>
<td>16.4</td>
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</tr>
<tr>
<td>Ecuador</td>
<td>13.5</td>
<td>36.2</td>
</tr>
<tr>
<td>Guatemala</td>
<td>14.6</td>
<td>6.4</td>
</tr>
<tr>
<td>Honduras</td>
<td>20.4</td>
<td>15.6</td>
</tr>
<tr>
<td>Panama</td>
<td>11.8</td>
<td>11.6</td>
</tr>
<tr>
<td>TOTAL</td>
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<td>100.0</td>
</tr>
<tr>
<td><strong>Sugar</strong></td>
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<td></td>
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<tr>
<td>Brazil</td>
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<td>9.7</td>
</tr>
<tr>
<td>Cuba</td>
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<td>73.1</td>
</tr>
<tr>
<td>Dominican Republic</td>
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<td>10.8</td>
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</tr>
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<td>100.0</td>
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</tr>
<tr>
<td>Dominican Republic</td>
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<td>1.5</td>
</tr>
<tr>
<td>Ecuador</td>
<td>1.2</td>
<td>1.6</td>
</tr>
<tr>
<td>El Salvador</td>
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<td>4.8</td>
</tr>
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<td>4.5</td>
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<tr>
<td>Haiti</td>
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<td>1.4</td>
</tr>
<tr>
<td>Honduras</td>
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<td>0.8</td>
</tr>
<tr>
<td>Mexico</td>
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<td>4.5</td>
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<tr>
<td>Nicaragua</td>
<td>1.1</td>
<td>1.2</td>
</tr>
<tr>
<td>Peru</td>
<td>0.1</td>
<td>1.2</td>
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<tr>
<td>Venezuela</td>
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<td>100.0</td>
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<td>16.3</td>
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<td>Venezuela</td>
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<td>6.8</td>
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<td>100.0</td>
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<td>4.1</td>
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<tr>
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<td>0.8</td>
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<td>Peru</td>
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<td>16.9</td>
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<td>100.0</td>
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<td>Uruguay</td>
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<td>100.0</td>
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<td>4.8</td>
</tr>
<tr>
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<td>Peru</td>
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</tr>
<tr>
<td>Uruguay</td>
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<td>19.7</td>
</tr>
<tr>
<td>TOTAL</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

*Average.


Persisted until the early fifties, were on such a scale that in 1952 the United States absorbed about half of all Latin American exports.

25. Reconstruction in western Europe, and the resulting economic expansion in the fifties, led to an increase in Latin America's exports to that area. Thus Latin American trade has tended in recent years to return to its pre-war pattern (see table 9). The main difference is the larger share of exports to Japan and to the countries with centrally-planned economies.

(5) Causes of the slow growth of Latin American exports

26. The external factors that have limited the potential expansion of Latin American exports may be divided into three groups. The first are the essentially structural factors relating to the slow growth in the demand for primary commodities compared with that of demand for manufactured goods, because of the difference in the income-elasticity of demand for the two types of goods and the substitutions and
Table 9
Latin America: Exports, by area of destination, 1938-1962
(In percentage of value)\(^\circ\)

<table>
<thead>
<tr>
<th>Year</th>
<th>Developed areas⁶</th>
<th>Western Europe</th>
<th>Countries with centrally planned economies⁴</th>
<th>Under-developed areas⁶</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>North America</td>
<td>EFTA</td>
<td>Japan</td>
<td>Russia, China, Korea</td>
</tr>
<tr>
<td>Year</td>
<td>United States</td>
<td>EEC</td>
<td>Japan</td>
<td>Eastern Europe</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>United Kingdom</td>
<td>Total</td>
<td>Total</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Japan</td>
<td></td>
</tr>
<tr>
<td></td>
<td>1938</td>
<td>30.1 31.2 25.4</td>
<td>17.3 20.5 47.4</td>
<td>1.4 0.1 1.5 1.6</td>
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<td>13.1 16.7 35.3</td>
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<td>10.0 14.7 29.9</td>
<td>1.3 79.3 — 0.9 1.0 7.9</td>
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<td>10.3 13.7 30.1</td>
<td>2.4 78.9 — 0.5 0.5 8.6</td>
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<tr>
<td></td>
<td>1952</td>
<td>49.7 51.5 13.0</td>
<td>5.5 9.8 24.8</td>
<td>2.2 78.9 — 0.3 0.3 8.6</td>
</tr>
<tr>
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<td>1953</td>
<td>47.3 49.0 13.8</td>
<td>7.9 11.7 27.1</td>
<td>3.2 79.6 0.1 0.3 0.5 9.5</td>
</tr>
<tr>
<td></td>
<td>1954</td>
<td>43.7 45.0 16.1</td>
<td>6.8 10.6 28.9</td>
<td>3.4 77.6 0.8 1.0 2.0 9.0</td>
</tr>
<tr>
<td></td>
<td>1955</td>
<td>44.0 45.5 15.6</td>
<td>7.0 10.9 28.7</td>
<td>2.9 77.4 0.9 1.3 2.3 9.6</td>
</tr>
<tr>
<td></td>
<td>1956</td>
<td>44.6 46.4 17.2</td>
<td>7.7 11.5 30.8</td>
<td>3.5 81.0 0.3 0.9 1.2 7.7</td>
</tr>
<tr>
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<td>1957</td>
<td>44.5 46.0 16.9</td>
<td>9.2 12.6 31.7</td>
<td>2.7 80.6 0.7 0.7 1.4 8.8</td>
</tr>
<tr>
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<td>1958</td>
<td>44.6 46.3 16.1</td>
<td>8.2 11.6 29.6</td>
<td>2.6 79.0 0.6 1.2 2.0 9.3</td>
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<td>1959</td>
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<td>8.5 11.4 30.3</td>
<td>3.0 79.4 0.5 1.3 1.8 8.6</td>
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<tr>
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<td>1960</td>
<td>42.0 43.6 18.4</td>
<td>8.7 11.8 31.7</td>
<td>2.8 78.3 1.3 1.5 3.5 8.0</td>
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<tr>
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<td>1961</td>
<td>37.8 39.6 18.6</td>
<td>8.0 11.3 32.0</td>
<td>3.9 76.1 4.0 1.6 6.5 6.6</td>
</tr>
<tr>
<td></td>
<td>1962</td>
<td>36.7 38.6 19.7</td>
<td>7.8 11.2 33.3</td>
<td>3.6 76.0 4.1 2.1 7.2 6.7</td>
</tr>
</tbody>
</table>


\(\circ\) Expressed in terms of dollars at current f.o.b. prices.

\(\circ\) Includes North America (United States and Canada), Western Europe (member countries of EEC, namely Belgium, Federal Republic of Germany, France, Italy, Luxembourg, Netherlands and the member countries of EFTA, namely Austria, Denmark, Norway, Portugal, Sweden, Switzerland, United Kingdom, and the remaining countries that are European members of the OECD, plus

Finland and Yugoslavia), Japan, and also Australia, New Zealand, and South Africa.

\(\circ\) Includes the Soviet Union, and the countries of Eastern Europe (except Yugoslavia) and Asia that have centrally-planned economies.

\(\circ\) Countries not included under \(\circ\) or \(\circ\).

\(\circ\) Ecuba and Curaçao absorb a very high proportion of these exports.

\(\circ\) The over-all total is higher than the sum of the regional totals because it includes exports whose destination is not known.

Economies in inputs made possible by general and technological advances. In addition, there are factors deriving from the policy applied by the industrial countries that are the traditional purchasers of Latin American products, which have led to a smaller demand for some items or to an increase in the production of these items by the importing countries. The factors in the third group relate to the introduction on the world market of competitive goods from other areas in the course of development and from the industrialized countries.

27. Furthermore, the Latin American countries, in pursuing their domestic policies, have failed to establish specific targets for the diversification of exports, and these policies have also affected the evolution of exports of the traditional primary commodities.

28. In order to evaluate Latin America’s prospects of improving its present position, and to determine the objectives of its internal and external policy in relation to the evolution of the world economy, it is essential to ascertain the part played by each of the foregoing factors in the structure of the world economy.

(a) Structural factors of an economic and technological nature

29. The lower income-elasticity of demand for a large proportion of primary commodities, especially foods, is often adduced as explaining the marked differences between the development of trade in primary commodities and in manufactured goods.

30. In fact, statistical studies show that imports of food and raw materials by the industrialized countries have increased less than their income levels, whereas imports of fuels and manufactured goods have tended to increase more. Table 10 gives the coefficients

Table 10
Coefficients of income-elasticity of demand of items imported by the industrial countries from the developing countries\(^6\)

<table>
<thead>
<tr>
<th>Group of products</th>
<th>Coefficient of income-elasticity of demand</th>
</tr>
</thead>
<tbody>
<tr>
<td>Food (sections 0 and 1 of the SITC)</td>
<td>0.76</td>
</tr>
<tr>
<td>Agricultural raw materials and mineral ores (sections 2 and 4 of the SITC)</td>
<td>0.60</td>
</tr>
<tr>
<td>Fuels (section 3 of the SITC)</td>
<td>2.87(^6) (1.40)</td>
</tr>
<tr>
<td>Manufactured goods (sections 5 to 8 of the SITC)</td>
<td>1.24</td>
</tr>
</tbody>
</table>


\(\circ\) These estimates were obtained by comparing the growth of the gross products of the industrial countries with the evolution of the groups of goods imported by these countries from the developing countries during the period 1953-1960.

\(\circ\) This coefficient, which is based on past experience, to some extent reflects the effect of non-economic factors.

\(\circ\) A more realistic coefficient, estimated by the Economic Commission for Europe.
for imports from the developing countries, taken as a
group.

31. Broadly speaking, it is undoubtedly true that,
as in the case of Latin America, for a given market
the law of demand tends to limit exports of important
traditional primary commodities, and this leads to
a structural deficit in the balance of payments.
However, the slow growth of Latin American exports
cannot be attributed wholly to this factor, and a
detailed study of the trend of developments in the
world economy shows that this factor has had less
influence than others in recent years.

32. Two other basic factors have played a part in
limiting the region’s exports, namely, the rapid develop-
ment of agricultural production in the United States
and Western Europe, and the entry into the world
market of the United States and other industrialized
countries, and of other developing areas, as suppliers of
products similar to those traditionally exported by
Latin America.

33. Moreover, it should be borne in mind that
consumer prices in the importing countries are very
different from Latin American export prices, because
of the domestic policy applied in Latin America’s
traditional markets, which has the effect of stimulating
domestic production while considerably restricting
domestic demand, at least for some products. The
same aims are also pursued by other means [see
chapter II, section B (2)].

34. An increase in import demand in other areas
of the world, and the resulting expansion of trade in
Latin America’s traditional products, might be one
means of temporarily circumventing this structural
limitation, particularly if areas such as those com-
prising the centrally-planned economies were incor-
porated in the world trading system, or if world
demand were increased through a rise in available
income in the under-developed countries.

35. Technological progress is another structural
factor that limits commodity demand, especially for
ores and textile fibres, since it leads to economies in
the use of raw materials and metal scrap, and the
replacement of natural raw materials by others, or by
products of industrial origin.  

36. The substitutions concerned depend partly on
the prices of the primary commodities, and a com-
parison of the f.o.b. and consumer prices for certain
items makes it clear that the policy measures adopted
in the consumer economies may stimulate this process.

---

A survey carried out in the United States shows that the technical
coefficient for lead utilization in the motor vehicle industry (which
accounts for about a third of total lead consumption in the United
States) fell from 7.34 tons per thousand cars produced in 1950 to
4.26 tons in 1960. During the same period, consumption of zinc for
new construction (which represented a quarter of aggregate zinc con-
sumption) declined from 1.21 tons per million dollars (at 1947-1949
prices) to 0.91 tons. In 1959 scrap metal accounted for about 40 per
cent of total consumption of copper and lead in the United States,
the respective figures for tin, zinc and aluminium being 34, 24 and
15 per cent [see World economic trends: Study of prospective produc-
tion of and demand for primary commodities, mimeographed, May
1962]. Lastly, the proportion of total world consumption of textile
fibres accounted for by man-made fibres (synthetic and of chemical
origin) rose from 7.5 per cent in the pre-war period to 21 per cent
in the three-year period 1957-1959 (see FAO, Agricultural com-

---

### Table 11

<table>
<thead>
<tr>
<th>Country or area of origin</th>
<th>1953 Millions of dollars f.o.b.</th>
<th>Per cent</th>
<th>1960 Millions of dollars f.o.b.</th>
<th>Per cent</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Industrial areas</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>North America</td>
<td>6 478</td>
<td>17.7</td>
<td>10 094</td>
<td>20.3</td>
</tr>
<tr>
<td>Europe</td>
<td>8 851</td>
<td>24.1</td>
<td>12 667</td>
<td>25.4</td>
</tr>
<tr>
<td>EEC</td>
<td>4 026</td>
<td>11.0</td>
<td>6 423</td>
<td>12.9</td>
</tr>
<tr>
<td>EFTA</td>
<td>3 196</td>
<td>8.7</td>
<td>4 097</td>
<td>8.2</td>
</tr>
<tr>
<td>Other countries</td>
<td>1 629</td>
<td>4.4</td>
<td>2 147</td>
<td>4.3</td>
</tr>
<tr>
<td>Japan</td>
<td>225</td>
<td>0.6</td>
<td>439</td>
<td>0.9</td>
</tr>
<tr>
<td><strong>Non-industrial areas</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Latin America</td>
<td>6 980</td>
<td>19.1</td>
<td>7 810</td>
<td>15.7</td>
</tr>
<tr>
<td>Asia</td>
<td>4 670</td>
<td>12.7</td>
<td>5 810</td>
<td>11.7</td>
</tr>
<tr>
<td>Middle East</td>
<td>2 680</td>
<td>7.3</td>
<td>4 825</td>
<td>9.7</td>
</tr>
<tr>
<td>Australia, New Zealand</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>South Africa</td>
<td>2 880</td>
<td>7.9</td>
<td>3 230</td>
<td>6.5</td>
</tr>
<tr>
<td>Other areas</td>
<td>3 880</td>
<td>10.6</td>
<td>4 940</td>
<td>9.9</td>
</tr>
<tr>
<td><strong>World total</strong></td>
<td>35 645</td>
<td>100.0</td>
<td>49 815</td>
<td>100.0</td>
</tr>
</tbody>
</table>


* Excluding countries with centrally-planned economies, because of the lack of
data for 1953.

* Includes food, beverages, tobacco, oil-bearing seeds and oils; raw materials
of animal and vegetable origin, and metaliferous ores and fuels.

* The total does not always coincide with the sum of the individual figures,
either because of rounding or because the total includes exports whose destination
is not known.

* Finland, Greece, Iceland, Ireland, Spain, Turkey and Yugoslavia.

(b) Expansion of commodity exports from
industrialized countries

37. The industrial countries are increasing their
share of the world market for food, raw materials
and fuels. The figures in table 11 show that between
1953 and 1960 the value in dollars of Latin American
exports increased by only 12 per cent, whereas the
value of exports from the industrial areas increased by
50 per cent since Latin America succeeded in stepping
up its exports to the value of $800 million between
1953 and 1960 while the industrial countries as a whole
obtained an increase to the value of $8,000 during the
same period.

38. Table 12 gives the figures for the exports of
this group of commodities to the industrial markets,
by country of origin.

39. It can be seen that between 1953 and 1960
imports of foods, raw materials and fuels by the
industrial countries rose from $28,500 million to
$38,800 million, while Latin America’s share in these
imports rose from $5,500 million to $6,000 million;
that is, imports to the industrial countries increased by
$1,000 million, but only $500 million of the increment
corresponded to Latin America.

* These figures exclude metal ores that have undergone processing.
Value, geographical distribution and growth indices of imports of primary commodities by industrial areas, 1953 and 1960

<table>
<thead>
<tr>
<th>Country or area of origin</th>
<th>1953</th>
<th>1960</th>
<th>1960</th>
<th>(1953 = 100)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Millions of dollars f.o.b.</td>
<td>Millions of dollars f.o.b.</td>
<td>Percentage</td>
<td></td>
</tr>
<tr>
<td>Industrial areas</td>
<td>11,890</td>
<td>17,920</td>
<td>46.2</td>
<td>151</td>
</tr>
<tr>
<td>North America</td>
<td>4,890</td>
<td>7,460</td>
<td>19.2</td>
<td>153</td>
</tr>
<tr>
<td>Western</td>
<td>6,885</td>
<td>10,160</td>
<td>26.2</td>
<td>148</td>
</tr>
<tr>
<td>Europe</td>
<td>3,005</td>
<td>5,105</td>
<td>13.2</td>
<td>170</td>
</tr>
<tr>
<td>EEC</td>
<td>2,515</td>
<td>3,315</td>
<td>8.5</td>
<td>132</td>
</tr>
<tr>
<td>Other countries</td>
<td>1,365</td>
<td>1,740</td>
<td>4.5</td>
<td>127</td>
</tr>
<tr>
<td>Japan</td>
<td>115</td>
<td>300</td>
<td>0.8</td>
<td>261</td>
</tr>
</tbody>
</table>

Non-industrial areas

<table>
<thead>
<tr>
<th>Country or area of origin</th>
<th>1953</th>
<th>1960</th>
</tr>
</thead>
<tbody>
<tr>
<td>Latin America</td>
<td>5,555</td>
<td>6,045</td>
</tr>
<tr>
<td>South-East Asia</td>
<td>2,800</td>
<td>3,255</td>
</tr>
<tr>
<td>Middle East</td>
<td>1,860</td>
<td>3,155</td>
</tr>
<tr>
<td>Australia, New Zealand</td>
<td>2,450</td>
<td>2,465</td>
</tr>
<tr>
<td>South Africa</td>
<td>3,085</td>
<td>4,095</td>
</tr>
</tbody>
</table>

Countries with centrally-planned economies

<table>
<thead>
<tr>
<th>Country or area of origin</th>
<th>1953</th>
<th>1960</th>
</tr>
</thead>
<tbody>
<tr>
<td>North America</td>
<td>1,582</td>
<td>2,463</td>
</tr>
<tr>
<td>Western</td>
<td>1,508</td>
<td>1,832</td>
</tr>
<tr>
<td>EEC</td>
<td>836</td>
<td>1,034</td>
</tr>
<tr>
<td>Other countries</td>
<td>552</td>
<td>626</td>
</tr>
<tr>
<td>Japan</td>
<td>113</td>
<td>113</td>
</tr>
</tbody>
</table>


40. Consequently Latin America's share in the external supply of food, raw materials and fuels to the industrial countries shrank, in this short lapse of time, from 19 to 15 per cent, whereas that of the industrial countries vis-à-vis the same area expanded from 42 to 46 per cent.

41. As table 12 shows, the dollar value of Latin American exports to the industrial countries rose by less than 10 per cent between 1953 and 1960, whereas exports of the same items from North America and western Europe went up by something like 50 per cent. A similar comparison for other areas is equally unfavourable to Latin America, particularly when the substantial increase in exports from the centrally-planned economies is taken into account, although the base level for these countries was comparatively low.

42. The slow rate of growth of Latin American exports to the industrial countries is even more clearly demonstrated if the benchmark period decided upon is prior to 1953, since in that year Latin American sales abroad were relatively low, and entered on a period of rapid expansion in volume.

43. An analysis of the share of the various areas in exports of primary commodities leads to the conclusion that the industrialized countries are offering strong competition to the primary-producing countries by placing on the world market virtually the same proportion of similar commodities, although perhaps with some difference in the degree of processing. Thus, in 1960 the industrial countries effected exports of the items concerned for a total of $23,000 million, as against sales of $27,000 million by the non-industrial countries (see again table 11).

44. Obviously the growing dominance of the industrial countries in exports of commodities cannot be attributed to a loss of competitive capacity on the part of the non-industrial countries, but is due rather to the policy followed by the former as regards subsidies, financing facilities, discriminatory treatment and preference systems, a policy which is being invoked to an increasing extent, in very important respects, as will be seen in chapter II.

45. The increase in the production of primary commodities in the industrial countries has also led to an intensification in their exports of such products to areas in the course of development. Table 13 shows that total exports of food, raw materials and fuels from industrial areas to non-industrial countries rose from $8,280 million in 1953 to $10,745 million in 1960.

Table 13

<table>
<thead>
<tr>
<th>Country or area of origin</th>
<th>1953</th>
<th>1960</th>
</tr>
</thead>
<tbody>
<tr>
<td>Industrial areas</td>
<td>3,200</td>
<td>4,425</td>
</tr>
<tr>
<td>North America</td>
<td>1,582</td>
<td>2,463</td>
</tr>
<tr>
<td>Western</td>
<td>1,508</td>
<td>1,832</td>
</tr>
<tr>
<td>EEC</td>
<td>836</td>
<td>1,034</td>
</tr>
<tr>
<td>Other countries</td>
<td>552</td>
<td>626</td>
</tr>
<tr>
<td>Japan</td>
<td>113</td>
<td>113</td>
</tr>
</tbody>
</table>

Non-industrial areas

<table>
<thead>
<tr>
<th>Country or area of origin</th>
<th>1953</th>
<th>1960</th>
</tr>
</thead>
<tbody>
<tr>
<td>Latin America</td>
<td>1,595</td>
<td>1,455</td>
</tr>
<tr>
<td>South-East Asia</td>
<td>1,710</td>
<td>2,055</td>
</tr>
<tr>
<td>Middle East</td>
<td>670</td>
<td>1,215</td>
</tr>
<tr>
<td>Australia, New Zealand</td>
<td>335</td>
<td>455</td>
</tr>
<tr>
<td>South Africa</td>
<td>670</td>
<td>700</td>
</tr>
</tbody>
</table>

Countries with centrally-planned economies

<table>
<thead>
<tr>
<th>Country or area of origin</th>
<th>1953</th>
<th>1960</th>
</tr>
</thead>
<tbody>
<tr>
<td>North America</td>
<td>1,595</td>
<td>1,455</td>
</tr>
<tr>
<td>South-East Asia</td>
<td>1,710</td>
<td>2,055</td>
</tr>
<tr>
<td>Middle East</td>
<td>670</td>
<td>1,215</td>
</tr>
<tr>
<td>Australia, New Zealand</td>
<td>335</td>
<td>455</td>
</tr>
<tr>
<td>South Africa</td>
<td>670</td>
<td>700</td>
</tr>
</tbody>
</table>

Total Imports

Table 13

<table>
<thead>
<tr>
<th>Country or area of origin</th>
<th>1953</th>
<th>1960</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total imports</td>
<td>8,280</td>
<td>10,475</td>
</tr>
</tbody>
</table>


46. The total does not always coincide with the sum of the individual figures, either because of rounding or because the total includes exports whose destination is not known.

Finland, Greece, Iceland, Ireland, Spain, Turkey and Yugoslavia.
million in 1960. However, even though the base levels were very low, the percentage increase in supplies to the industrial countries was less than in supplies to other areas.

49. Latin America’s exports of metal ores and fuels were the only items to take a more rapid upward course in recent years. Between 1953 and 1960 (see table 15) its fuel sales increased by 56 per cent and achieved a growth rate slightly in excess of the corresponding world rate. Nevertheless exports from other petroleum producing areas, such as the Middle East, increased far more.

50. For metal ores (see table 16) the dollar value of world exports (not including those from the centrally-planned economies) increased by 87 per cent in 1953-1960. Although Latin America’s exports exceeded the 1953 figure by 80 per cent, it barely maintained its position on the world market since its share decreased from 16.3 per cent to 15.5 per cent during the same period.

(c) Entry of other developing areas into the world commodity market

51. Other developing areas have entered the world commodity market during the post-war period, especially as exporters of petroleum, mineral ores and tropical agricultural products. This constitutes another

### Table 14

| Country or area of origin | 1953 | 1960 | 1960
|---------------------------|------|------|------
|                           | Millions of dollars f.o.b. | Percentage | Millions of dollars f.o.b. | Percentage |
| Industrial areas          | 15 815 | 89.0 | 33 880 | 90.5 | 214 |
| North America             | 5 085 | 28.6 | 8 510 | 22.7 | 167 |
| Western                   |                      |        |      |      |     |
| Europe                    | 10 480 | 59.0 | 23 970 | 64.1 | 229 |
| EEC                       | 6 025 | 34.0 | 15 635 | 41.8 | 259 |
| EFTA                      | 4 185 | 23.6 | 7 715 | 20.6 | 184 |
| Other countries           | 260 | 1.4 | 620 | 1.7 | 238 |
| Japan                     | 250 | 1.4 | 1 400 | 3.7 | 560 |

Non-industrial areas

| Country of origin | 1953 | 1960 | 1960
|-------------------|------|------|------
| Latin America     | 500 | 2.8 | 650 | 1.7 | 130 |
| South-East        | 395 | 2.2 | 815 | 2.2 | 206 |
| Middle East       | 50 | 0.3 | 145 | 0.4 | 290 |
| Australia, New Zealand and South Africa | 230 | 1.3 | 285 | 0.8 | 124 |
| Other Areas       | 530 | 3.0 | 775 | 2.1 | 146 |

Countries with centrally-planned economies

| Country or area of origin | 1953 | 1960 | 1960
|---------------------------|------|------|------
|                           | Millions of dollars f.o.b. | Percentage | Millions of dollars f.o.b. | Percentage |
| All areas                 | 17 770 | 100.0 | 37 425 | 100.0 | 211 |

### Table 15

| Country or area of origin | 1953 | 1960 | 1960
|---------------------------|------|------|------
|                           | Millions of dollars f.o.b. | Percentage | Millions of dollars f.o.b. | Percentage |
| Industrial areas          | 2 664 | 36.1 | 3 284 | 29.9 | 123 |
| North America             | 856 | 11.6 | 981 | 8.9 | 115 |
| Western                   |                      |        |      |      |     |
| Europe                    | 1 799 | 24.4 | 2 286 | 20.8 | 127 |
| EEC                       | 1 314 | 17.8 | 1 796 | 16.3 | 137 |
| EFTA                      | 426 | 5.8 | 428 | 3.9 | 100 |
| Other countries           | 59 | 0.8 | 62 | 0.6 | 105 |
| Japan                     | 9 | 0.1 | 17 | 0.2 | 189 |

Non-industrial areas

| Country or area of origin | 1953 | 1960 | 1960
|---------------------------|------|------|------
| Latin America             | 1 510 | 20.4 | 2 350 | 21.4 | 156 |
| South-East                | 545 | 7.4 | 550 | 5.0 | 101 |
| Middle East               | 1 820 | 24.6 | 3 640 | 33.0 | 200 |
| Australia, New Zealand and South Africa | 20 | 0.3 | 80 | 0.7 | 400 |
| Other areas               | 830 | 11.2 | 1 100 | 10.0 | 133 |

All areas

| Country or area of origin | 1953 | 1960 | 1960
|---------------------------|------|------|------
|                           | Millions of dollars f.o.b. | Percentage | Millions of dollars f.o.b. | Percentage |
|                          | 7 389 | 100.0 | 11 005 | 100.0 | 149 |


8 In this group the most important item for Latin America is basic metals, which in 1960 represented about 6 per cent of the total value of its exports.

9 The total does not always coincide with the sum of the individual figures, either because of rounding or because the total includes exports whose destination is not known.

10 The total includes exports whose destination is not known.

11 The lack of data for 1953.

12 The total does not always coincide with the sum of the individual figures, either because of rounding or because the total includes exports whose destination is not known.

13 Excluding the countries with centrally-planned economies, because of the lack of data for 1953.

14 Finland, Greece, Iceland, Ireland, Spain, Turkey and Yugoslavia.
TABLE 16
Value, geographical distribution and growth indices of world exports of metalliferous ores, 1953 and 1960

<table>
<thead>
<tr>
<th>Country or area of origin</th>
<th>1953</th>
<th>1960</th>
<th>1960</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Millions of dollars f.o.b.</td>
<td>Per centage</td>
<td>Millions of dollars f.o.b.</td>
</tr>
<tr>
<td>Industrial areas</td>
<td>832</td>
<td>46.8</td>
<td>1847</td>
</tr>
<tr>
<td>North America</td>
<td>346</td>
<td>19.5</td>
<td>1165</td>
</tr>
<tr>
<td>Western Europe</td>
<td>486</td>
<td>27.3</td>
<td>682</td>
</tr>
<tr>
<td>EEC</td>
<td>140</td>
<td>7.9</td>
<td>324</td>
</tr>
<tr>
<td>EFTA</td>
<td>236</td>
<td>13.3</td>
<td>268</td>
</tr>
<tr>
<td>Other countries</td>
<td>110</td>
<td>6.2</td>
<td>90</td>
</tr>
<tr>
<td>Japan</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-industrial areas</td>
<td>545</td>
<td>53.2</td>
<td>1475</td>
</tr>
<tr>
<td>Latin America</td>
<td>290</td>
<td>16.0</td>
<td>515</td>
</tr>
<tr>
<td>South-East Asia</td>
<td>265</td>
<td>14.9</td>
<td>300</td>
</tr>
<tr>
<td>Middle East</td>
<td>18</td>
<td>1.0</td>
<td>24</td>
</tr>
<tr>
<td>Australia, New Zealand</td>
<td>60</td>
<td>3.4</td>
<td>285</td>
</tr>
<tr>
<td>South Africa</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other areas</td>
<td>310</td>
<td>17.4</td>
<td>350</td>
</tr>
<tr>
<td>All areas</td>
<td>1777</td>
<td>100.0</td>
<td>3322</td>
</tr>
</tbody>
</table>


Table 17 shows that in 1953-1960 Latin American exports of most of the major groups of commodities did not expand at the same rate as those of the non-industrial areas or the centrally-planned economies. The only items in which Latin America succeeded in expanding its export trade at a faster rate were fuels and metal ores.

(d) Increase in agricultural production in the industrial countries

54. The expansion of agricultural production in the United States and Western Europe, in addition to affecting the world market, has enabled the countries concerned to meet more of their own requirements, thus applying yet another limiting factor to the potential expansion of the demand for Latin American products.

55. Table 18 gives the total and per capita indices for agricultural and food production in the various regions of the world. Present per capita production of food in North America and western Europe is 16 and 21 per cent higher, respectively, than in the pre-war period, whereas levels in Latin America are below those for the pre-war years.

56. These increases imply large exportable surpluses (especially in the United States), in view of the absolute levels of production and the relatively high income in these areas. Moreover, in all these countries, and especially in western Europe, production continues to expand because of the policy of achieving self-sufficiency in certain items that were traditionally imported; what is worse, these items will affect not only the domestic markets, but also the broader European Common Market. In these circumstances there seems little prospect of any increase in Latin American exports to Europe of temperate-zone
products (or even of some tropical products, such as sugar).

(6) Synthesis of the evolution of primary commodity exports from Latin America and other areas

57. As the figures in table 17 show, Latin America's share of world trade in most of its traditional export items has been steadily declining. A commodity-by-commodity breakdown shows that the area's share of world trade has been maintained or increased in only a small group of staple export items.

58. Figures II and table 19 indicate the share of Latin American exports in world trade (in terms of volume), broken down by principal commodities. A comparison of the figures since 1934-1938, already a period of relative depression for Latin America, shows that sugar, bananas, tobacco, cotton, agaves (henequén, sisal, etc.) and zinc ore are the only products in which Latin America has maintained or been able to increase its share of the world market, although for some of them its share has declined in the past few years.

59. In so far as the value of agricultural exports as a whole is concerned, a striking indication of the changes which have taken place with respect to the pre-war period and over the past ten years is provided in table 20. North America and Africa have registered the sharpest increases, if the pre-war period is taken as the base index. In the case of North America, the greater relative increase in its exports is due to two factors: domestic price policy and the special financing facilities offered by the United States. Africa's very much improved sales position may be attributed largely to the policy of promotion and protection applied by some countries to their overseas associates.

(7) Difficulties hampering commodity trade in non-traditional areas

60. The intensification of Latin America's trade with other areas has met with certain difficulties. The countries with centrally-planned economies have hitherto tended to follow a policy of self-sufficiency, particularly in respect of agricultural production, or have imposed severe restrictions on imports of other primary commodities.

### Table 18

<table>
<thead>
<tr>
<th></th>
<th>Total agricultural production</th>
<th>Total food production</th>
<th>per capita agricultural production</th>
<th>per capita food production</th>
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<td>B</td>
<td>A</td>
<td>B</td>
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<td>Western Europe</td>
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<tr>
<td>All Areas</td>
<td>114</td>
<td>153</td>
<td>116</td>
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</tbody>
</table>


a Excludes mainland China.
b In the FAO document the average for the period 1952/53-1956/57 was taken as the base.
c Excluding coffee, tea, tobacco, inedible oil-bearing seeds, animal and vegetable fibres and rubber.

d Measured in oil equivalent.

### Table 19

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<thead>
<tr>
<th></th>
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<td>Zinc metal</td>
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</table>


a Measured in metric tons.
b The total does not include exports from countries with centrally-planned economies.
FIGURE II
Latin America's share in world exports of primary commodities
(Percentage of world volume)
Temperate zone products

Tropical zone products

Mineral products

61. Moreover, because of the different economic systems involved, special institutional arrangements have to be made to enable bilateral agreements to operate, and this is the practice followed by the above-mentioned countries. Added to this are the difficulties inherent in any initiation of trade relations, above all in respect of items such as capital goods for which some kind of permanent organization is needed for the replacement of parts and for maintenance. The fact that balances are not transferable even among the EEC countries. In fact, Africa is the only region where intra-area trade is virtually at the same relative level as in Latin America. This is shown in table 21.

(8) Lack of a policy of export diversification in the Latin American countries

63. It is not easy to estimate the results which the Latin American countries would have achieved in the post-war period had they adopted a vigorous policy of export diversification, and thus offset the slow growth of commodity trade by introducing new export items, especially of manufactured goods, into the market. In any case, it is recognized that not enough has been done in this direction and that Latin America will inevitably have to take part in the trade in manufactured goods.

(9) Slow development of inter-Latin American trade
which gives the percentage of each region's exports that is accounted for by intra-area sales. The figures show that within the relatively low volume of Latin America's intra-regional trade, there have been substantial changes in the degree to which it has met its own requirements. Thus, before the war, intra-regional trade represented about 8 per cent of Latin America's total sales, a figure which rose to nearly 10 per cent in 1953 and 1955 and then gradually declined to 6.5 per cent in 1961-1962.

65. Viewed from the standpoint of imports, Latin America, like the other developing areas, has been buying relatively less from countries in its own region, an additional factor responsible for its low level of self-sufficiency as a whole (see table 22).

66. Nevertheless, the results that are being obtained in Central America3 and the Free-Trade Area indicate that prospects for developing Latin American trade are very favourable.

(10) An illustrative estimate of the extent of Latin America's displacement in world trade

67. Merely by way of illustration some comparisons can be made to show the extent to which Latin America has been displaced in world trade. Thus, for example, Latin America's supplies of primary commodities (excluding fuels) to the industrialized countries shrank from 20.2 per cent in 1953 to 15.1 per cent in 1960. If Latin America had maintained its 1953 level in 1960, it would have earned over $1,500 million more from its exports than it actually obtained. It should be pointed out that this calculation does not allow for losses due to price reductions, and also that if periods prior to 1953 are considered the displacement would be even greater, since by that year Latin American exports were already at a relatively low level.

68. A similar estimate, also by way of illustration, is based on a specific analysis of the development of Latin America's share of world trade in some of its major export items: coffee, cacao, maize, wheat, beef, barely and linseed oil. Latin America's competitive position in respect of all these commodities has been very favourable, yet the combined effect of the various factors mentioned has been to reduce its share of the world trade in these items. The drop has been so sharp that, in the period 1953-1961 for temperate-zone commodities and 1953-1962 for tropical commodities, Latin America would, it is estimated, have obtained $8,800 million more, at the prices prevailing in those years, had its exports of those items maintained their 1934-1938 share of world trade in these commodities [see chapter II (F)].

B. Growth structure, policy and limitations of Latin American development vis-à-vis the evolution of the external sector

(1) Types of economic growth in Latin America

69. A broad analysis shows that the Latin American countries experienced three types of economic growth during the past thirty years. The first, a relatively outward-directed process, was observed in the Central American countries, Peru and Ecuador. The second, based on an intensive process of import substitution, was the type in Argentina, Brazil, Chile and Mexico. The third type of economic growth represents a middle course between the two others and is found in Colombia (lately the Venezuelan economy has begun to follow this pattern).

70. As is only natural, no clear-cut limits can be established for classifying countries in the third group. Thus, while Chile has increased its import coefficient in the last few years, due to significant aspects of its structure of production, its place is really among the countries that have gone ahead with import substitution. On the other hand, while Venezuela's import coefficient has contracted sharply, it still remains comparatively high and its exports are expanding at one of the fastest rates in Latin America. Thus, Latin America's economic development has clearly taken different forms and has been affected by factors which, in some cases, define stages of growth.

71. For purposes of the analysis which forms the subject of this paper—even at the risk of oversimplification—the Latin American economies may be classified according to four characteristic indices: level of per capita income, size and evolution of the import coefficient in relation to the growth rate of the product, size of the market and total income. Consequently, another index relating to the growth rate of external purchasing power derived from exports and inflows of capital is implicit in the above-mentioned factors (see table 23).
72. Up to a few years ago, most of the countries with the highest import coefficients experienced relatively high rates of growth of the domestic product, with imports approaching and at times even exceeding that rate. These are mainly the tropical countries, at intermediate and low levels of per capita income. A relatively high export growth rate, together with some diversification of exports, although in primary products which are already traditional items of Latin American exports, complete the picture as to the characteristics of the first group of countries.

73. The countries which now have a low import coefficient tend to occupy a higher place in the scale of average per capita income or total income per country. These countries underwent a more intensive process of industrialization during the post-war period. Some, like Brazil and Mexico, achieved a comparatively high rate of growth, while others, particularly Argentina and Chile, grew at a much slower pace.

74. In the second group of countries, excluding Mexico, exports expanded very slowly and for long periods remained at a standstill; conversely, their purchasing power fluctuated sharply as a result of changes in the terms of trade.

75. Although under different conditions, Colombia and Venezuela have embarked on a process similar to that undertaken some time ago by the countries of the second group. Colombia, with a relatively low per capita income, attained import coefficients ranging from 12 to 15 per cent in the early fifties and has been reducing them by means of an intensive import substitution process and strong restrictive measures made necessary by its balance-of-payments situation. The drop in Venezuela’s import coefficient in the last few years is even more marked.

76. Special conditions affect the position of Bolivia and Paraguay, although in both cases external purchasing power is either at a standstill or rising very slowly, and this in turn is largely responsible for the very low rate of growth of their domestic product.

77. Broadly speaking, and simplifying the analysis in order to emphasize the points with which this paper is particularly concerned, it can be said that exports, as measured in terms of their purchasing power, constitute the dynamic factor of economic growth in the first group of countries. In the second group, on the other hand, the internal process of industrialization and import substitution tended to become the factor of growth. However, insufficient external purchasing power obviously limits the economic growth rate of some countries in this group and makes it difficult for them to proceed with import substitution.

(2) Structure of imports, income level and import substitution

78. Economic growth, industrialization and the resulting import substitution produced a change in the composition of imports (see table 24). In Latin America, import substitution begins with consumer goods
and some relatively simple intermediate products, and moves on to intermediate products requiring substantial investment and to certain types of durable consumer and capital goods. The demand for fuels and other intermediate and capital goods increases correspondingly.

79. This process produces a change in the relative composition of imports. The proportion of consumer goods shrinks while that of fuels, intermediate goods and capital goods increases (see figure III). These structural changes are shown by a study of the former pattern in the countries that have gone ahead with import substitution, such as Argentina, Brazil, Chile and Mexico, and emerge even more clearly from a comparison with the existing composition of imports in each Latin American country (see tables 24 and 25).

80. Figure III shows that, as a rule, countries with a high import coefficient devote at least 40 per cent of

Table 24
Percentage composition of imports by country, average for 1949-1951
(Percentages of total imports for each country)

<table>
<thead>
<tr>
<th>Country</th>
<th>Total</th>
<th>Non-durable</th>
<th>Durable</th>
<th>Fuels</th>
<th>Raw materials and intermediate products</th>
<th>Capital goods</th>
</tr>
</thead>
<tbody>
<tr>
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<tr>
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<td>0.0</td>
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<td>Chile</td>
<td>18.0</td>
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<td>0.0</td>
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<tr>
<td>Dominican Republic</td>
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Source: ECLA, on the basis of national statistics.

Table 25
Percentage composition of imports by country, average for 1959-1961
(Percentages of total imports for each country)

<table>
<thead>
<tr>
<th>Country</th>
<th>Total</th>
<th>Non-durable</th>
<th>Durable</th>
<th>Fuels</th>
<th>Raw materials and intermediate products</th>
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</table>

Source: ECLA, on the basis of national statistics.

* For Bolivia, Colombia, the Central American countries, Haiti and the Dominican Republic the average is for 1959-1960.
NOTE: This figure is presented strictly for the purpose of illustrating the basic changes in the composition of imports of the Latin American countries. The curves therefore represent only trends or general averages; the specific data on the composition of imports for each country are given in tables 24 and 25.

81. Thus the imports of countries that have made most progress in the direction of import substitution have acquired a highly rigid structure, since they consist chiefly of essential items having a direct bearing on the present level of economic activity and employment and on the creation of the production capacity needed to increase income in the near future.

82. Accordingly, in the face of a stationary or slowly increasing external purchasing power which, moreover, tends to contract even further owing to the servicing of investment and foreign loans, the countries concerned find it difficult or virtually impossible to take any action in respect of imports without affecting their level of activity or future production capacity. The countries which have not reached an advanced stage of import substitution can, in principle, go ahead with that process. In fact, in view of the difficulties encountered in recent years they have been restricting imports and deliberately promoting import substitution. But there is a limit to this process and unless they attain adequate external purchasing power they will be faced with the same bottleneck in the future.

83. This should not be construed as an attempt to pass judgement on the industrialization process, the aim being rather to point out that in the present state of the Latin American economies a development policy designed to achieve rational use of resources with a view to raising productivity inevitably calls for a certain level of imports as a means of promoting the industrialization process itself. The problem is how, within the context of the world as a whole and of Latin America's internal position, to bring about the conditions required for an expansion of Latin America's foreign trade, and thus to speed up the productivity growth rate by making the most of every advantage both at home and abroad.

(3) Effects of the unfavourable development of the external sector in the fifties

84. In the early post-war years, Latin America as a whole registered relatively high export indices, exports representing 20 per cent of the gross product.
While the physical volume of exports increased slowly, their purchasing power rose thanks to the terms of trade. High import levels were thereby attained which largely covered the needs which could not be met during the war. In those years both product and income registered the highest growth rates of the whole post-war period.

85. In the first half of the nineteen-fifties, there was a deterioration in the terms of trade and volume of exports of countries in the temperate zones. However, while Latin America as a whole did not increase its volume of exports its purchasing power rose by 18 per cent compared with the first five-year period after the war.

**Table 26**

Latin America: Product, real income, consumption, investment and external sector, 1945-1961

<table>
<thead>
<tr>
<th>Group of countries and period</th>
<th>Gross product</th>
<th>Real income</th>
<th>Total investment</th>
<th>Total consumption</th>
<th>Volume of exports</th>
<th>Effect of terms of trade</th>
<th>External factor payments</th>
<th>Net external financing</th>
<th>Imports of goods and services</th>
</tr>
</thead>
<tbody>
<tr>
<td>1945-1949</td>
<td>12 170</td>
<td>13 750</td>
<td>16 110</td>
<td>15 440</td>
<td>16 050</td>
<td>16 890</td>
<td>12 160</td>
<td>13 710</td>
<td>15 440</td>
</tr>
<tr>
<td>1950-1954</td>
<td>13 750</td>
<td>15 750</td>
<td>16 150</td>
<td>15 530</td>
<td>16 050</td>
<td>16 890</td>
<td>14 750</td>
<td>16 320</td>
<td>18 050</td>
</tr>
<tr>
<td>1955-1961</td>
<td>15 750</td>
<td>15 750</td>
<td>16 150</td>
<td>15 530</td>
<td>16 050</td>
<td>16 890</td>
<td>17 350</td>
<td>18 920</td>
<td>20 050</td>
</tr>
</tbody>
</table>

**Source:** National statistics prepared by ECLA.

* Based on the period 1946-1949.
* Including tourist trade.
* Including a very rough estimate for the Caribbean countries.
Latin America, with relatively limited external financing of not more than 5 per cent of the value of its exports, thus succeeded in increasing its imports by 25 per cent. The product grew at an average annual rate of 5 per cent, and the import coefficient remained practically stable for the Latin American countries as a whole, although it tended to rise in countries with relatively few import restrictions and to decline in those engaged in import substitution.

Since 1955, the economic situation in Latin America has developed most unfavourably, notwithstanding the fact that the volume of exports expanded at the highest rates recorded since the thirties. The average annual volume of exports in 1955-1961 was 30 per cent larger than for the preceding five-year period. At the same time, the deterioration in the terms of trade was such as to nullify 60 per cent of that increment in terms of purchasing power.
88. In spite of this, Latin America managed to increase its imports, albeit at a much lower rate. It did so by resorting extensively to external financing which was made available, partly through the movement of long-term capital, but which also called for balance-of-payments loans and the use of monetary reserves, in view of the difficult external accounts situation.

89. The growth rate of the product and income declined and the import coefficient fell—an indication of combined import substitution and the effect of the restrictive measures established in some countries at the time (see tables 26 and 27).

**Figure IV**

*Latin America: Evolution of the external sector, 1950-1961*  
*(Thousands of millions of 1950 dollars)*  
*Natural scale*

- **Volume of imports of goods and services**
- **Purchasing power of exports**
- **Net external financing**
- **Effect of terms of trade**

**Source:** ECLA, on the basis of official foreign trade statistics and data provided by the International Monetary Fund.

(4) *Effect of the deterioration in the external terms of trade*

90. The deterioration in the external terms of trade for Latin America as a whole represented from 3 to 4 per cent of the gross domestic product, taking 1950 as the base year for comparison. If the period 1950-1954 is taken as the point of reference, the percentage loss is about the same.

**Figure V**

*Latin America: Volume of exports, 1935-1960*  
*(Millions of 1955 dollars)*  
*Semi-logarithmic scale*

- **Brazil, Mexico and Venezuela**
- **Argentina, Bolivia, Chile, Paraguay and Uruguay**
- **Central America and the West Indies**
- **Colombia, Ecuador and Peru**
91. Two points clearly demonstrate the effect of the deterioration in the external terms of trade on the Latin American economy. One, of a general nature, shows that it is responsible for a decline of 20 to 30 per cent in the growth rate of the domestic product. The other indicates that if a comparison is made of the external sector of the Latin American economy during the years 1951-1955 with 1946-1950, it is less than the losses in trade. While such inflows of capital amounted to some $8,000 million, the effect of the deterioration is estimated at over $10,000 million at 1950 prices (see figure IV).

92. The decline in the growth rate and the deterioration in the external terms of trade have affected every country in the region, although with varying intensity and not always in the same periods (see again tables 26 and 27).

93. In the temperate-zone countries, deterioration set in earlier and was already in process at the beginning of the fifties. In the coffee-growing countries it became apparent in the second half of that decade, and notably affected the growth rate of the Central American countries from 1957 onwards (see figure V).

94. Of the major Latin American exports, only in the case of petroleum and some metal ores can it be said that the terms of trade improved and that sales abroad increased.

C. EVOLUTION OF BALANCE-OF-PAYMENTS POSITION: CAPITAL MOVEMENTS AND CRITICAL EXTERNAL FINANCIAL SITUATION OF LATIN AMERICA

(1) Increase in deficits on external current accounts

95. Certain conditions inherent in the structure of the external sector of the Latin American economy are conducive to imbalances in their foreign trade accounts.

96. In the early years of the post-war period it was possible for such trends to be controlled in some measure by virtue of the relatively high level of exports and of the external terms of trade. But the slowness with which exports developed, in the first place, and later, when they expanded, the deterioration in their purchasing power forced the deficits sharply upwards during the fifties (see table 28).

97. While in 1946-1950 current foreign exchange transactions registered a deficit of only $130 million for the Latin American countries as a whole, the figure in question was quintupled in the first half of the fifties, and, on an average, exceeded $1,100 million during the second half of the decade.

98. In 1961, if Cuba is excluded for want of data and Venezuela because it showed a favourable balance, the accounts of the remaining eighteen Latin American countries reflected a deficit in respect of current expenditure amounting to nearly $1,500 million.

99. The statistics presented in table 29 show that, with the single exception of the Dominican Republic, the external deficits of all countries were aggravated during the course of the fifties.

100. It is worth while to analyse fluctuations in the credit and debit entries on the balance of payments to ascertain the incidence of each on the increases in current account deficits.

101. During the first half of the fifties, the annual rise in income from exports of goods and services accruing to Latin America (excluding Cuba) averaged over $430 million, but in the second half of the same decade, the increment dropped to under $300 million yearly (see table 30).

### Table 28

Latin America: Evolution of balance-of-payments position on current account

(Annual averages in millions of dollars)

<table>
<thead>
<tr>
<th>Year or period</th>
<th>Goods f.o.b.</th>
<th>Services</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1946-1950</td>
<td>5 951.5</td>
<td>564.0</td>
<td>6 515.5</td>
</tr>
<tr>
<td>1951-1955</td>
<td>7 756.9</td>
<td>917.2</td>
<td>8 674.1</td>
</tr>
<tr>
<td>1956-1960</td>
<td>8 750.0</td>
<td>1 497.9</td>
<td>10 247.9</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Year or period</th>
<th>Goods f.o.b.</th>
<th>Services</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1946-1950</td>
<td>-4 836.4</td>
<td>-1 087.4</td>
<td>-5 923.8</td>
</tr>
<tr>
<td>1951-1955</td>
<td>-6 680.9</td>
<td>-1 699.4</td>
<td>-8 380.3</td>
</tr>
<tr>
<td>1956-1960</td>
<td>-7 774.4</td>
<td>-2 347.2</td>
<td>-10 121.6</td>
</tr>
</tbody>
</table>

### C. Latin America, excluding Cuba and Venezuela

<table>
<thead>
<tr>
<th>Year or period</th>
<th>Goods f.o.b.</th>
<th>Services</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1946-1950</td>
<td>-4 406.5</td>
<td>491.5</td>
<td>4 998.0</td>
</tr>
<tr>
<td>1951-1955</td>
<td>5 514.8</td>
<td>326.4</td>
<td>5 841.2</td>
</tr>
<tr>
<td>1956-1960</td>
<td>5 339.0</td>
<td>6 847.3</td>
<td>12 186.3</td>
</tr>
<tr>
<td>1961</td>
<td>5 791.1</td>
<td>1 536.2</td>
<td>7 327.3</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Year or period</th>
<th>Goods f.o.b.</th>
<th>Services</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1946-1950</td>
<td>-3 787.6</td>
<td>-858.6</td>
<td>-4 646.2</td>
</tr>
<tr>
<td>1951-1955</td>
<td>-5 212.6</td>
<td>-1 309.9</td>
<td>-6 522.5</td>
</tr>
<tr>
<td>1956-1960</td>
<td>-5 607.6</td>
<td>-1 650.7</td>
<td>-7 258.3</td>
</tr>
<tr>
<td>1961</td>
<td>-6 259.0</td>
<td>-1 845.2</td>
<td>-8 104.2</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Year or period</th>
<th>Goods f.o.b.</th>
<th>Services</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1946-1950</td>
<td>-3 205.5</td>
<td>-42.4</td>
<td>-3 247.9</td>
</tr>
<tr>
<td>1951-1955</td>
<td>-3 546.6</td>
<td>-84.1</td>
<td>-4 333.7</td>
</tr>
<tr>
<td>1956-1960</td>
<td>-3 369.1</td>
<td>-1 754.5</td>
<td>-5 123.6</td>
</tr>
<tr>
<td>1961</td>
<td>-4 544.4</td>
<td>-2 853.5</td>
<td>-7 397.9</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Year or period</th>
<th>Goods f.o.b.</th>
<th>Services</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1946-1950</td>
<td>-2 302.5</td>
<td>-42.4</td>
<td>-2 344.9</td>
</tr>
<tr>
<td>1951-1955</td>
<td>-2 810.6</td>
<td>-84.1</td>
<td>-3 694.7</td>
</tr>
<tr>
<td>1956-1960</td>
<td>-2 509.1</td>
<td>-1 754.5</td>
<td>-4 263.6</td>
</tr>
<tr>
<td>1961</td>
<td>-3 544.4</td>
<td>-2 853.5</td>
<td>-6 397.9</td>
</tr>
</tbody>
</table>

Source: International Monetary Fund, Balance of Payments Yearbook, Vols. 8, 12, 13 and 14.

b Including net private donations.

Not including Cuba in 1960.

* Including net movements of non-monetary gold.
TABLE 29
Latin America: Evolution of balance-of-payments position on current account, by country
(Annual averages in millions of dollars)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Group A</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Argentina</td>
<td>+84.9</td>
<td>-140.4</td>
<td>-177.5</td>
<td>-584.4</td>
</tr>
<tr>
<td>Bolivia</td>
<td>-9.2</td>
<td>-13.9</td>
<td>-27.4</td>
<td>-32.1</td>
</tr>
<tr>
<td>Chile</td>
<td>-36.9</td>
<td>-14.0</td>
<td>-84.3</td>
<td>-273.6</td>
</tr>
<tr>
<td>Paraguay</td>
<td>-1.8</td>
<td>-2.2</td>
<td>-10.2</td>
<td>-10.7</td>
</tr>
<tr>
<td>Uruguay</td>
<td>+3.1</td>
<td>-27.3</td>
<td>-53.3</td>
<td>-16.5</td>
</tr>
<tr>
<td><strong>Total Group A</strong></td>
<td>+40.1</td>
<td>-197.8</td>
<td>-352.7</td>
<td>-923.3</td>
</tr>
<tr>
<td><strong>Group B</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Colombia</td>
<td>-45.3</td>
<td>-24.5</td>
<td>-21.0</td>
<td>-141.8</td>
</tr>
<tr>
<td>Ecuador</td>
<td>-5.1</td>
<td>-4.3</td>
<td>-12.3</td>
<td>-23.4</td>
</tr>
<tr>
<td>Peru</td>
<td>-10.4</td>
<td>-41.8</td>
<td>-72.4</td>
<td>+18.2</td>
</tr>
<tr>
<td><strong>Total Group B</strong></td>
<td>-60.8</td>
<td>-70.6</td>
<td>-63.7</td>
<td>-147.0</td>
</tr>
<tr>
<td><strong>Group C (Caribbean)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cuba</td>
<td>+83.0</td>
<td>-47.8</td>
<td>86.9°</td>
<td>...</td>
</tr>
<tr>
<td>Dominican Republic</td>
<td>+7.8</td>
<td>+2.8</td>
<td>+8.4</td>
<td>+40.8</td>
</tr>
<tr>
<td>Haiti</td>
<td>+0.8</td>
<td>-5.2</td>
<td>+0.9</td>
<td>-3.1</td>
</tr>
<tr>
<td><strong>Total Group C</strong></td>
<td>+91.6</td>
<td>-50.2</td>
<td>-77.6</td>
<td>+37.7</td>
</tr>
<tr>
<td><strong>Group C (Central America)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Costa Rica</td>
<td>-7.5</td>
<td>-2.9</td>
<td>-18.1</td>
<td>-17.7</td>
</tr>
<tr>
<td>El Salvador</td>
<td>+7.2</td>
<td>+6.7</td>
<td>-4.3</td>
<td>-1.8</td>
</tr>
<tr>
<td>Guatemala</td>
<td>+0.1</td>
<td>+2.7</td>
<td>-35.9</td>
<td>-28.5</td>
</tr>
<tr>
<td>Honduras</td>
<td>-5.0</td>
<td>-5.3</td>
<td>-6.4</td>
<td>0.0</td>
</tr>
<tr>
<td>Nicaragua</td>
<td>-3.1</td>
<td>-1.6</td>
<td>-7.6</td>
<td>-7.0</td>
</tr>
<tr>
<td>Panama</td>
<td>-17.0</td>
<td>-18.7</td>
<td>-36.2</td>
<td>-45.6</td>
</tr>
<tr>
<td><strong>Total Group C</strong></td>
<td>-25.5</td>
<td>-19.1</td>
<td>-108.5</td>
<td>-100.6</td>
</tr>
<tr>
<td><strong>Group D</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Brazil</td>
<td>+9.4</td>
<td>-288.8</td>
<td>-297.6</td>
<td>-292.0</td>
</tr>
<tr>
<td>Mexico</td>
<td>-82.9</td>
<td>-46.5</td>
<td>-142.3</td>
<td>-91.4</td>
</tr>
<tr>
<td>Venezuela</td>
<td>-101.2</td>
<td>+7.5</td>
<td>-105.9</td>
<td>+447.3</td>
</tr>
<tr>
<td><strong>Total Group D</strong></td>
<td>-174.7</td>
<td>-327.8</td>
<td>-545.8</td>
<td>+63.9</td>
</tr>
<tr>
<td><strong>Total Latin America, excluding Cuba and Venezuela</strong></td>
<td>-111.1</td>
<td>-625.2</td>
<td>-955.5</td>
<td>-1 516.6</td>
</tr>
<tr>
<td><strong>Total Latin America, excluding Cuba</strong></td>
<td>-212.3</td>
<td>-617.7</td>
<td>-1 061.4</td>
<td>-1 069.3</td>
</tr>
<tr>
<td><strong>TOTAL LATIN AMERICA</strong></td>
<td>-129.3</td>
<td>-655.5</td>
<td>-1 148.3°</td>
<td>...</td>
</tr>
</tbody>
</table>

Source: As for table 28.

TABLE 30
Latin America:* Variations in balance-of-payments assets and liabilities on current account, 1950-1960
(In millions of dollars)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Exports</td>
<td>2 131</td>
<td>1 456</td>
</tr>
<tr>
<td>Goods, f.o.b.</td>
<td>1 798</td>
<td>914</td>
</tr>
<tr>
<td>Services</td>
<td>353</td>
<td>542</td>
</tr>
<tr>
<td>Profits and interest on foreign investment and loans</td>
<td>-246</td>
<td>-304</td>
</tr>
<tr>
<td>Imports</td>
<td>-2 310</td>
<td>-1 598</td>
</tr>
<tr>
<td>Goods, f.o.b.</td>
<td>-1 704</td>
<td>-971</td>
</tr>
<tr>
<td>Services</td>
<td>-606</td>
<td>-627</td>
</tr>
<tr>
<td>Excess current outflow</td>
<td>-405</td>
<td>-444</td>
</tr>
</tbody>
</table>

Source: As for table 28.

* Excluding Cuba.

102. At the same time, commitments under the head of profits and interest on foreign investment and loans increased more and more rapidly, so that whereas in 1950-1955 they absorbed 11 per cent of current foreign exchange income, in the second half of the fifties the increment in these services represented over 20 per cent of the additional current income obtained.

103. As will be shown at a later stage, the inflow of capital into Latin America increased in volume during this period, but nevertheless the tempo of imports slackened in accordance with the evolution of available purchasing power. From an average annual increment of $340 million f.o.b., the rate of growth decreased to less than 200 million. There was also a decline in real terms, for the purchasing power of these dollars at current prices decreased. By contrast, balance-of-payments deficits on current account for Latin America as a whole rose from 80 million dollars per annum to 90 million dollars.
Latin America: Variations in balance-of-payments assets and liabilities on current account, 1946-1960

(In millions of dollars)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Exports</td>
<td>1,438</td>
<td>511</td>
</tr>
<tr>
<td>Goods, f.o.b.</td>
<td>1,108</td>
<td>24</td>
</tr>
<tr>
<td>Services</td>
<td>330</td>
<td>487</td>
</tr>
<tr>
<td>Profits and interest on foreign investment and loans</td>
<td>-76</td>
<td>-105</td>
</tr>
<tr>
<td>Imports</td>
<td>-1,876</td>
<td>-736</td>
</tr>
<tr>
<td>Goods, f.o.b.</td>
<td>-1,425</td>
<td>-395</td>
</tr>
<tr>
<td>Services</td>
<td>-451</td>
<td>-341</td>
</tr>
<tr>
<td>Excess current outflow</td>
<td>-514</td>
<td>-330</td>
</tr>
</tbody>
</table>

Source: As for table 28.

* Excluding Cuba and Venezuela.

104. Venezuela exerted a preponderant influence on the figures in question. If the analysis is related to the group of eighteen Latin American countries which do not include Cuba and Venezuela, the fluctuations in the positive and negative balance-of-payments movements are as shown in Table 31.

105. In the early fifties, the countries in this group increased their foreign exchange earnings on exports of goods by an annual average of $200 million, but in the second half of the decade income from this source tended to remain virtually stationary. Only income from services, pre-eminent among which was the tourist industry, continued to expand, but the benefit was reaped by only a few of the countries of the group, in particular Mexico.

106. If the figure of $24 million that represents the average annual increase in export earnings between the two quinquennia of the fifties is compared with the figure for the variation in the real value of exports, which is estimated at $1,100 million at 1950 prices, the magnitude of the fall in export prices affecting this group of countries emerges very clearly indeed.

107. Table 31 reveals, moreover, the upward trend of the burden represented by profits and interest on foreign investment and loans for the group of countries under discussion, for while in the first half of the fifties the increase in such commitments corresponded to 5 per cent of the increment in current exchange earnings from exports of goods and the tourist industry, the proportion subsequently rose to 20 per cent, without taking into account amortization figures.

108. In the upshot, despite the increases in capital inflows which will be studied below, this group of countries had to restrict its imports sharply in relation to the potential demand deriving from higher income levels. The average annual rate of increase of its imports sank from $300 million f.o.b. to $80 million. The stagnation which affected the foreign exchange earnings on exports of goods from these eighteen countries as a whole is so surprising that it is worth while to trade the trends registered in individual countries.

109. As already stated, for the group as a whole the annual average increase between the two five-year periods was only $24 million. The analysis shows that in four countries the income under consideration decreased, as follows (in dollars): Bolivia (-20 million); Brazil (-205 million); Haiti (-6 million); and Uruguay (-100 million). In three countries, namely, Argentina, Colombia and Paraguay, earnings remained virtually unchanged. They increased, although in relatively small measure, in Costa Rica and Chile and followed more favourable trends in the Dominican Republic (+27 million); Ecuador (+36 million); El Salvador (+20 million); Guatemala (+20 million); Mexico (+105 million); Nicaragua (+107 million) and Peru (+90 million).

110. It must be borne in mind that the foregoing figures relate to an average increase over a period of five years, and that for this reason they lose relative importance in some cases when they are related to annual fluctuations.

(2) Capital movements and their share in external financing

111. Movements of capital increased considerably during the fifties, and combined with trade financing, balance-of-payments loans and the use of monetary reserves to compensate the current account deficits examined above.

112. During the first half of the fifties, net autonomous capital receipts averaged $500 million annually in Latin America as a whole, excluding Cuba for lack of data. They subsequently climbed to $1,300 million and dropped to $1,100 million during 1961.

113. As a result of the deterioration in external accounts, financing by means of trade debts and balance-of-payments loans tended to increase from a net figure of $16 million before the fifties to averages of $130 million and $160 million in later years. For their part, monetary reserves have decreased steadily up to the present (see table 32).

114. Latin America's balance-of-payments accounts show relatively high sums under the head of errors and omissions. These figures are thought to include outflows of private capital, but the exact amount is still indeterminate. If, in order to ascertain the extent to which each of the movements of capital contributes to external financing, the figures for errors and omissions are subtracted from autonomous capital receipts, it will be seen that Latin America's aggregate balance-of-payments deficit (excluding Cuba) was financed in the following proportions from 1950 onwards: 74 per cent from net autonomous capital receipts; 15 per cent from compensatory movements and 11 per cent from monetary reserves.

115. In some countries, monetary reserves were drawn on more intensively in the early post-war years to meet the costs of nationalization and repatriation of foreign investment and their share of financing is naturally tending to shrink since a limit has to be set to the drain upon them.
INTERNATIONAL TRADE AND ECONOMIC DEVELOPMENT

TABLE 32
Latin America: Financing of balance on current account
(Annual averages in millions of dollars)

<table>
<thead>
<tr>
<th>Year or period</th>
<th>Net autonomous capital movements</th>
<th>Trade debts and balance-of-payments loans</th>
<th>Net monetary reserves (increase—)</th>
<th>Errors and omissions</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>A. Total Latin America</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1946-1950</td>
<td>+84.4</td>
<td>+15.8</td>
<td>+76.4</td>
<td>−47.3</td>
<td>+129.3</td>
</tr>
<tr>
<td>1951-1955</td>
<td>+578.4</td>
<td>+131.2</td>
<td>+45.4</td>
<td>−89.6</td>
<td>+655.4</td>
</tr>
<tr>
<td>1956-1960</td>
<td>+1 352.8</td>
<td>+158.8</td>
<td>+129.9</td>
<td>−493.1</td>
<td>+1 148.4</td>
</tr>
<tr>
<td>B. Latin America, excluding Cuba</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1946-1950</td>
<td>+119.7</td>
<td>+15.8</td>
<td>+116.4</td>
<td>−39.5</td>
<td>+212.4</td>
</tr>
<tr>
<td>1951-1955</td>
<td>+511.7</td>
<td>+131.2</td>
<td>+63.0</td>
<td>−88.4</td>
<td>+617.5</td>
</tr>
<tr>
<td>1956-1960</td>
<td>+1 288.9</td>
<td>+158.8</td>
<td>+52.2</td>
<td>−438.5</td>
<td>+1 061.4</td>
</tr>
<tr>
<td>1961</td>
<td>954.3</td>
<td>+227.5</td>
<td>+345.3</td>
<td>−457.8</td>
<td>+1 069.3</td>
</tr>
<tr>
<td>C. Latin America, excluding Cuba and Venezuela</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1946-1950</td>
<td>−73.5</td>
<td>+15.8</td>
<td>+144.0</td>
<td>+24.8</td>
<td>+111.1</td>
</tr>
<tr>
<td>1951-1955</td>
<td>+432.2</td>
<td>+131.2</td>
<td>+96.2</td>
<td>−34.5</td>
<td>+625.1</td>
</tr>
<tr>
<td>1956-1960</td>
<td>+979.3</td>
<td>+118.8</td>
<td>+66.2</td>
<td>−208.7</td>
<td>+955.5</td>
</tr>
<tr>
<td>1961</td>
<td>+1 337.7</td>
<td>+260.8</td>
<td>+318.6</td>
<td>−400.5</td>
<td>+1 516.6</td>
</tr>
</tbody>
</table>

Source: As for table 28.

116. If Venezuela is excluded so that the evolution of capital movements in the remaining eighteen Latin American countries can be traced more clearly, net autonomous capital receipts will be seen to have totalled $1,000 million annually in the second half of the fifties and to have risen to as much as $1,300 million in 1961. This trend testifies to the importance of these capital movements in Latin America's external financing, although it should be noted that the figures include reinvested profits of foreign firms.

117. If recent trends are considered in relation to the aims of economic development plans, the foregoing data will provide a yardstick for assessing Latin America's future financial requirements should the evolution of its external purchasing power take a given course.

(3) Net autonomous capital movements

118. One factor that should be given due attention in the context of the policy of international financial co-operation is the increasing importance of long-term loans in comparison with direct investment (see table 33).

TABLE 33
Latin America: Net autonomous capital movements
(Annual averages in millions of dollars)

<table>
<thead>
<tr>
<th>Year or period</th>
<th>Net long-term loans</th>
<th>Other movements</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Direct net investment*</td>
<td>To private sector</td>
<td>To public sector</td>
</tr>
<tr>
<td>A. Total Latin America</td>
<td>+331.1</td>
<td>−5.6</td>
<td>−224.0</td>
</tr>
<tr>
<td>1951-1955</td>
<td>+343.1</td>
<td>+55.9</td>
<td>+63.5</td>
</tr>
<tr>
<td>1956-1960</td>
<td>+919.0</td>
<td>+192.9</td>
<td>+139.2</td>
</tr>
<tr>
<td>B. Latin America, excluding Cuba</td>
<td>+329.2</td>
<td>−5.6</td>
<td>−218.1</td>
</tr>
<tr>
<td>1951-1955</td>
<td>+325.3</td>
<td>+48.2</td>
<td>+45.1</td>
</tr>
<tr>
<td>1956-1960</td>
<td>+853.3</td>
<td>+183.4</td>
<td>+148.3</td>
</tr>
<tr>
<td>1961</td>
<td>+273.9</td>
<td>+323.2</td>
<td>+579.6</td>
</tr>
<tr>
<td>C. Latin America, excluding Cuba and Venezuela</td>
<td>+123.9</td>
<td>−5.6</td>
<td>−218.0</td>
</tr>
<tr>
<td>1951-1955</td>
<td>+252.0</td>
<td>+49.0</td>
<td>+45.5</td>
</tr>
<tr>
<td>1956-1960</td>
<td>+543.1</td>
<td>+181.7</td>
<td>+149.3</td>
</tr>
<tr>
<td>1961</td>
<td>+354.4</td>
<td>+320.1</td>
<td>+625.8</td>
</tr>
</tbody>
</table>

Source: As for table 28.

* Including reinvestment.

B Not including Cuba in 1960.
119. The figures for the group of eighteen countries show, in fact, that the yearly average for net long-term loans rose from $95 to $320 million in the course of the fifties, and even higher during 1961 when net receipts are estimated to have been approximately $950 million.

120. Direct investment (including reinvestment) climbed in its turn from $250 to $540 million during the fifties but was only $350 million in 1961. Thus, in absolute terms, net long-term loans came to exceed direct investment, even with due allowance made for reinvested profits.

121. To illustrate this point, it may be added that the balances of payments for the eighteen countries show that commitments under the head of remuneration and profits on foreign investment amounted to $350 million annually in the fifties while direct net investment averaged $400 million.

122. The increase in direct investment towards the end of the fifties came mainly from Argentina, Brazil, Chile, Guatemala, Peru and Venezuela, and its subsequent decline in 1961 from an average of $850 to $300 million can be ascribed to a reduction in investment in that same group of countries, which apparently did not involve either Chile or Mexico.

123. It is estimated that 78 per cent of direct investment was made by the United States or corresponded to reinvestment of profits on capital from that country, while the bulk of the remaining 22 per cent came from western Europe and Japan.

124. In 1951-1960, the net long-term loans received by Latin America (including Cuba up to 1959) totalled $2,300 million. Of this sum, more than $1,600 million were supplied by international financial institutions and United States Government agencies while about $600 million came from portfolio investment and medium-term trade credits, mainly of European origin.

125. In short, 25 per cent of the long-term loans were provided by international financial institutions; 44 per cent by the various United States Government agencies and 31 per cent by other sources, particularly private banks in Europe and Japan operating on the basis of medium-term trade credits.

126. The relatively high figure of $900 million for net long-term loans in 1961 represented the sum of the development loans granted by United States Government agencies, which from $200 million in 1960 rose to $500 million in 1961, and the medium-term credits extended by European banks, which had been only $70 million in 1960 and climbed to $400 million in the following year.

127. Official donations are the other important element in autonomous capital movements. They, too, have increased, and in recent years have come to represent a net inflow of over $100 million for Latin America.

128. A review of the sources of the autonomous capital entering Latin America in the fifties shows that the United States accounted for 72 per cent of the total, international financial institutions for 6 per cent, and western Europe and Japan for the bulk of the remaining 22 per cent.

129. Despite the sizable increase in the inflow of autonomous capital, and notwithstanding import restriction and substitution, the shortage of current exchange earnings had such an effect on the area's balance of payments that the Latin American countries were forced to resort, extensively at times, to compensatory financing.

130. Table 32 presents the figures for these movements under two headings: trade debts and balance-of-payments loans, and monetary reserves. Trade arrears were relatively large for some countries and led to the signing of consolidation agreements or to refinancing by means of balance-of-payments loans. In 1951-60 loans of this kind plus trade debts are estimated to have amounted to roughly $1,600 million, and may well have been even more. Utilization of monetary reserves can be measured by the net gold and foreign exchange balances in the hands of the monetary authorities. During the fifties the aggregate balances for Latin America as a whole, excluding Cuba, shrank by about $600 million. If Venezuela, which was able to add to its reserves, is not taken into account, the losses suffered by the group of eighteen countries amounted to more than $800 million.

131. The same trend continued in 1961, and statistics show a drop of $350 million in net reserves. This substantial sum testifies to the heavy drawings on foreign exchange obtained from earlier loans and credits.

(5) Evolution of total purchasing power

132. Earlier in this paper an examination was made of the evolution of Latin America's purchasing power as regards the trend of exports and the terms of trade. An analysis was undertaken to determine, in real terms, the influence of the external sector on the purchasing power of exports and on the evolution of the product and income.

133. It would be useful at this juncture to complement that analysis by reviewing the influence of capital movements and servicing commitments on external accounts. This would help to complete the picture of Latin America's present financial situation and to shed light on certain aspects which are salient to the determination of future financial policy.

134. Table 34 presents statistics on the evolution of exchange earnings from exports of goods and services and the additional purchasing power generated by net autonomous capital movements. The foreign exchange from these two sources has to be used to pay remuneration and profits in respect of external factors of production and to service balance-of-payments loans and trade debts. The balance represents the income available for importing goods and paying for external service.

135. As the value of their imports of goods and services outstripped their purchasing power, the Latin American countries had to resort to compensatory financing in the shape of trade credits or balance-of-payments loans, drew upon their own reserves or incurred trade arrears.
The analysis should take into account private capital outflows which are thought to have reached sizable proportions and are entered under errors and omissions although their exact amount is not known.

Table 34 gives a clear picture of the incidence of various factors on the evolution of external accounts. In the first place existing purchasing power is unable to satisfy import demand for goods and services despite import substitution and restrictions. The result is an increasingly large deficit which has had to be covered by compensatory financing. Secondly, export income from goods and services, which is one of the positive elements in purchasing power, has been very slow to improve and its tempo becomes even slower if the group of eighteen countries excluding Venezuela and Cuba is considered. Thirdly, servicing obligations have become much heavier, especially if amortization of compensatory loans and trade arrears is taken into account.

It is apparent from this analysis that whereas the foreign exchange available to Latin America (excluding Cuba) for its imports increased during the fifties, first at the average rate of $430 million a year and subsequently of $300 million, exports and net autonomous capital receipts before deductions for errors and omissions rose at average rates of $500 million and $440 million respectively. The disparities are due to the fact that the increase in financial servicing and the outflow of private capital took up part of the additional purchasing power acquired by the Latin American countries from their exports and autonomous capital receipts. Table 35 shows the variations that took place on the credit and debit sides of purchasing power in the post-war period.

### Table 34
**Latin America: Total purchasing power and imports of goods and services**

(Annual averages in millions of dollars)

<table>
<thead>
<tr>
<th>Year and period</th>
<th>Goods f.o.b.</th>
<th>Services</th>
<th>Total</th>
<th>Net autonomous capital movements</th>
<th>Net external factor payments</th>
<th>Amortization of deferred import payments and balance-of-payments loans</th>
<th>Sub-total</th>
<th>Errors and omissions</th>
<th>Total</th>
<th>Imports of goods and services</th>
<th>Balance *</th>
</tr>
</thead>
<tbody>
<tr>
<td>1946-1950</td>
<td>5,915.5</td>
<td>564.0</td>
<td>6,515.5</td>
<td>+84.4</td>
<td>-721.0</td>
<td>-44.2</td>
<td>5,834.7</td>
<td>-47.3</td>
<td>5,787.4</td>
<td>5,923.8</td>
<td>-136.4</td>
</tr>
<tr>
<td>1951-1955</td>
<td>7,756.9</td>
<td>917.2</td>
<td>8,674.1</td>
<td>+578.4</td>
<td>-959.2</td>
<td>-127.1</td>
<td>8,166.2</td>
<td>-89.5</td>
<td>8,076.7</td>
<td>8,380.3</td>
<td>-303.6</td>
</tr>
<tr>
<td>1956-1960 *</td>
<td>8,750.0</td>
<td>1,497.9</td>
<td>10,247.9</td>
<td>+1,352.8</td>
<td>-1,274.7</td>
<td>-172.3</td>
<td>10,153.7</td>
<td>-493.1</td>
<td>9,660.6</td>
<td>10,121.6</td>
<td>-461.0</td>
</tr>
</tbody>
</table>

**B. Latin America, excluding Cuba**

<table>
<thead>
<tr>
<th>Year and period</th>
<th>Goods f.o.b.</th>
<th>Services</th>
<th>Total</th>
<th>Net autonomous capital movements</th>
<th>Net external factor payments</th>
<th>Amortization of deferred import payments and balance-of-payments loans</th>
<th>Sub-total</th>
<th>Errors and omissions</th>
<th>Total</th>
<th>Imports of goods and services</th>
<th>Balance *</th>
</tr>
</thead>
<tbody>
<tr>
<td>1946-1950</td>
<td>5,293.4</td>
<td>517.7</td>
<td>5,811.1</td>
<td>+119.7</td>
<td>-668.6</td>
<td>-44.2</td>
<td>5,218.0</td>
<td>-39.5</td>
<td>5,178.5</td>
<td>5,354.9</td>
<td>-176.4</td>
</tr>
<tr>
<td>1951-1955</td>
<td>7,091.4</td>
<td>870.2</td>
<td>7,961.6</td>
<td>+511.7</td>
<td>-914.7</td>
<td>-127.1</td>
<td>7,431.5</td>
<td>-88.4</td>
<td>7,343.1</td>
<td>7,664.4</td>
<td>-321.3</td>
</tr>
<tr>
<td>1956-1960</td>
<td>8,005.6</td>
<td>1,412.3</td>
<td>9,417.9</td>
<td>+1,288.9</td>
<td>-1,217.3</td>
<td>-172.3</td>
<td>9,317.2</td>
<td>-438.5</td>
<td>8,878.7</td>
<td>9,262.0</td>
<td>-383.3</td>
</tr>
<tr>
<td>1961 . . .</td>
<td>8,228.9</td>
<td>1,650.5</td>
<td>9,874.4</td>
<td>+954.3</td>
<td>-1,307.2</td>
<td>-193.7</td>
<td>9,332.8</td>
<td>-457.8</td>
<td>8,875.0</td>
<td>9,641.5</td>
<td>-765.6</td>
</tr>
</tbody>
</table>

**C. Latin America, excluding Cuba and Venezuela**

<table>
<thead>
<tr>
<th>Year and period</th>
<th>Goods f.o.b.</th>
<th>Services</th>
<th>Total</th>
<th>Net autonomous capital movements</th>
<th>Net external factor payments</th>
<th>Amortization of deferred import payments and balance-of-payments loans</th>
<th>Sub-total</th>
<th>Errors and omissions</th>
<th>Total</th>
<th>Imports of goods and services</th>
<th>Balance *</th>
</tr>
</thead>
<tbody>
<tr>
<td>1946-1950</td>
<td>4,406.5</td>
<td>491.5</td>
<td>4,898.0</td>
<td>-73.5</td>
<td>-362.9</td>
<td>-44.2</td>
<td>4,417.4</td>
<td>+24.8</td>
<td>4,442.2</td>
<td>4,646.2</td>
<td>-204.0</td>
</tr>
<tr>
<td>1951-1955</td>
<td>5,514.8</td>
<td>821.5</td>
<td>6,336.1</td>
<td>+432.2</td>
<td>-438.7</td>
<td>-127.1</td>
<td>6,202.5</td>
<td>-34.5</td>
<td>6,168.0</td>
<td>6,522.5</td>
<td>-354.5</td>
</tr>
<tr>
<td>1956-1960</td>
<td>5,593.0</td>
<td>1,308.3</td>
<td>6,847.3</td>
<td>+979.3</td>
<td>-544.5</td>
<td>-172.3</td>
<td>7,209.8</td>
<td>-208.7</td>
<td>6,991.0</td>
<td>7,258.3</td>
<td>-357.2</td>
</tr>
<tr>
<td>1961 . . .</td>
<td>5,791.1</td>
<td>1,536.1</td>
<td>7,327.3</td>
<td>+1,337.7</td>
<td>-739.7</td>
<td>-160.4</td>
<td>7,764.9</td>
<td>-400.5</td>
<td>7,364.4</td>
<td>8,104.2</td>
<td>-739.8</td>
</tr>
</tbody>
</table>

### Notes

* This balance is equivalent, and of an opposite sign, to gross credits in the form of deferred import payments and balance-of-payments loans plus variations in the net holdings of monetary authorities (increase—).

* Not including Cuba in 1960.

### Table 35
**Latin America: Variations in the positive and negative components of purchasing power, 1950-1960**

(In millions of dollars)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Exports</td>
<td>2,150</td>
<td>1,456</td>
</tr>
<tr>
<td>Goods, f.o.b.</td>
<td>1,798</td>
<td>914</td>
</tr>
<tr>
<td>Services</td>
<td>352</td>
<td>542</td>
</tr>
<tr>
<td>Net autonomous capital</td>
<td>392</td>
<td>777</td>
</tr>
<tr>
<td>Errors and omissions</td>
<td>-49</td>
<td>-350</td>
</tr>
<tr>
<td>Profits and interest on foreign investment and loans</td>
<td>-246</td>
<td>-303</td>
</tr>
<tr>
<td>Amortization of compensatory loans and trade debts</td>
<td>-83</td>
<td>-45</td>
</tr>
<tr>
<td>Income available for imports of goods and services</td>
<td>2,164</td>
<td>1,535</td>
</tr>
</tbody>
</table>

**Source:** As for table 28.

* Excluding Cuba.
in Latin America: Variations positive and negative components of purchasing power, 1950-1960

<table>
<thead>
<tr>
<th>Year or period</th>
<th>Profits on direct investment</th>
<th>Interest</th>
<th>Amortization</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1946-1950</td>
<td>10.3</td>
<td>1.7</td>
<td>8.6</td>
<td>20.4</td>
</tr>
<tr>
<td>1951-1955</td>
<td>10.4</td>
<td>1.1</td>
<td>3.9</td>
<td>15.4</td>
</tr>
<tr>
<td>1956-1960</td>
<td>11.0</td>
<td>1.9</td>
<td>8.8</td>
<td>21.7</td>
</tr>
<tr>
<td>1961</td>
<td>9.8</td>
<td>2.9</td>
<td>11.7</td>
<td>24.4</td>
</tr>
</tbody>
</table>

Source: As for table 28.

* Excluding reinvestment.

141. In view of the importance of Venezuela's external financial movements, table 36 relating to the other eighteen Latin American countries should be considered separately. These countries' aggregate purchasing power for imports and payment of services also increased in the fifties although in that same period there was virtually no increment in export earnings.

142. As indicated in table 36, the annual average for net cumulative receipts of capital in 1951-1955 was $500 million more than the corresponding figures in 1946-1950. In the latter part of the decade receipts continued to rise, their annual average being $540 million more than in the first half. As a result, the supply of income available to the eighteen countries for import purposes was larger than their export earnings, but this margin of purchasing power constituted less than half the increase in autonomous capital because of the cost of financial servicing, including errors and omissions.

143. The evolution of Latin America's external accounts may be summed up as follows:

(a) From 1955 onwards the quantum of exports expanded at one of the highest rates observed since the Depression, i.e., approximately 4.5 per cent annually, but the deterioration in the external terms of trade was such that it wiped out two-thirds of the purchasing power of exports, and for Latin America (excluding Cuba and Venezuela) current export earnings in foreign exchange remained virtually at a standstill.

(b) The Latin American countries disposed of a relatively large volume of net capital from long-term loans and direct investment, but the effect of this on purchasing power was reduced by the increase in financial service payments.

(c) The growth rate of imports had to be reduced, but although substitution continued, the rate of income improvement began to flag and external indebtedness increased.

(d) The burden of servicing thus became much heavier, and the ensuing external financial situation revealed by the balances of payments is extremely rigid and unsatisfactory and presents a formidable barrier to the achievement of the most modest objectives in development plans.

144. The following data will serve to round off or synthesize this analysis:

(i) Towards 1960 monetary reserves accounted for only 25 per cent of the total cost of annual imports of goods and services, and for far less if short-term liabilities are discounted and net reserves and assets taken into account. For example, the relation between net reserves and annual imports in Uruguay dropped from 88 per cent in 1951 to 42 per cent in 1960, in Argentina from 31 per cent (1951) to 10 per cent (1961) and in Brazil from 30 per cent (1953) to 2 per cent (1961).

(ii) If the relation between interest and amortization commitments and current exchange earnings is examined under every head, it will be seen that the original figure of 5 per cent rose to 11 per cent during the fifties and to 15 per cent in recent years (see table 37).

(iii) In the group of eighteen countries excluding Cuba and Venezuela, the coefficient for commitments of this kind in 1961 was 17 per cent, of which 4 per cent corresponded to interest and 13 per cent to amortization.

(iv) Another commitment constituting a drain on current exchange earnings is profits on direct investment. These have tended to maintain the same relation to export earnings but because of the latter's slow growth they represent a sizable amount fluctuating between 10 and 11 per cent.
145. These coefficients indicate the average situation in the group considered, but there are some countries whose situation is even more critical.

146. It is clear from all that has been said that the Latin American countries are facing serious difficulties, not only in their attempts to meet their servicing commitments but also to obtain further foreign credits, in accordance with the established principles of interest and amortization.

D. LATIN AMERICA'S ECONOMIC DEVELOPMENT PROSPECTUS AND FOREIGN TRADE REQUIREMENTS

(1) Prospectus for economic growth under present internal and external conditions

147. The pattern of Latin America’s economic development after the war provides an objective frame of reference for evaluating its development prospects. The gist of the first three sections on that subject is as follows: the average annual increase in Latin America’s aggregate income is estimated at less than 5 per cent. While the purchasing power of its exports expanded at an annual rate of 2.7 per cent, it was able to increase its imports at an annual rate of nearly 4 per cent through intensive use of external credit and its own monetary reserves. In the last few years, the rate of growth slackened, the region’s external indebtedness increased and it is currently having great difficulty in meeting its financial service commitments.

148. What, it may now be asked, are Latin America’s economic development prospects under present external and internal conditions? While the best way of answering this question would be to examine the prospects of each country in detail, as will be done later, an over-all evaluation will suffice at this point, since most of the Latin American countries are affected by the same adverse factors in respect of their external sector. For the purposes of this evaluation a very limited annual growth rate of not more than 2 per cent per capita will be chosen on the assumption that the purchasing power of Latin American exports will continue to grow at an annual rate of 2.7 per cent and that the region as a whole will maintain the process of import substitution and restriction that it pursued during the whole of the post-war period.

149. In these circumstances, Latin America’s import requirements towards 1966 (excluding those of Cuba) would total $10,000 million at 1960 prices. Moreover, its commitments under the head of profits and interest on current investment and debts would be roughly $1,400 million. Consequently, with a hypothetical income of $9,700 million, Latin America would have a deficit of over $1,700 million.

150. Capital inflows in the form of direct investment and long and medium-term loans would have to be used to wipe out the deficit, to write off current debts and to service fresh debts acquired. Amortization of current debts may represent $800 million. Consequently, gross capital receipts would have to be as much as $2,500 million, quite apart from the additional revenue needed to service new investment and debts.

151. The gap between commitments under the head of imports and financial servicing on the one hand and projected export income on the other would continue to widen up to 1970, thereby increasing the deficit on current account to about $2,300 million. At best, amortization of current debts might have dropped by then to $400 million which means that capital inflows would have to be more than $2,700 million, always excluding the servicing of new investment and loans.

152. A relatively intensive process of import substitution has been tacitly assumed for Venezuela in the projections. The deficit on current account should therefore be largely attributed to the remaining eighteen countries. Any change made in the projection for Venezuela is liable to increase the deficit accordingly (see tables 38 and 39).

153. If the purchasing power of Latin America’s exports increases at an average of 2.7 per cent as in the past, annual net external financing would have to double in the brief space of four or five years, and by 1970 would have to be two and a half times as much as it is now.

154. This would be the situation despite import substitution and restriction which would reduce the present import coefficient from 11.2 per cent to 10.3 per cent by 1970. Moreover, the per capita growth rate

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**Table 38**

Latin America:* Projections of the product and the resources available for consumption and investment, assuming a 2 per cent growth rate in the per capita product

(In millions of 1960 dollars)

<table>
<thead>
<tr>
<th>Year or period</th>
<th>Gross domestic product</th>
<th>Imports(^b) c.i.f.</th>
<th>Total resources</th>
<th>Exports of goods and net tourist trade</th>
<th>Internal consumption and investment</th>
</tr>
</thead>
<tbody>
<tr>
<td>1959</td>
<td>68 460</td>
<td>7 600</td>
<td>76 060</td>
<td>7 980</td>
<td>68 080</td>
</tr>
<tr>
<td>1960</td>
<td>71 670</td>
<td>8 130</td>
<td>79 800</td>
<td>8 310</td>
<td>71 490</td>
</tr>
<tr>
<td>1961</td>
<td>75 030</td>
<td>8 300</td>
<td>83 330</td>
<td>8 530</td>
<td>74 800</td>
</tr>
<tr>
<td>Average 1959-1961</td>
<td>71 720</td>
<td>8 010</td>
<td>79 730</td>
<td>8 280</td>
<td>71 450</td>
</tr>
<tr>
<td>Projections</td>
<td>1966</td>
<td>94 480</td>
<td>10 070</td>
<td>104 550</td>
<td>9 710</td>
</tr>
<tr>
<td></td>
<td>1970</td>
<td>113 540</td>
<td>11 710</td>
<td>125 250</td>
<td>10 800</td>
</tr>
</tbody>
</table>

\(^a\) Excluding Cuba.

\(^b\) Including net services.
Latin America: Projections of the balance-of-payments position on current account, assuming a 2 per cent growth rate in the per capita product (In millions of 1960 dollars)

<table>
<thead>
<tr>
<th>Year or period</th>
<th>Income from exports of goods and net tourist trade</th>
<th>Imports c.i.f.</th>
<th>Profits and interest on foreign investment and loans</th>
<th>Total expenditure</th>
<th>Balance on current account</th>
<th>Amortization of existing debts</th>
<th>Balance on current account and amortization of existing debts</th>
</tr>
</thead>
<tbody>
<tr>
<td>1959</td>
<td>7,980</td>
<td>7,600</td>
<td>1,070</td>
<td>8,670</td>
<td>-690</td>
<td>-1,070</td>
<td>-1,760</td>
</tr>
<tr>
<td>1960</td>
<td>8,310</td>
<td>8,130</td>
<td>1,170</td>
<td>9,300</td>
<td>-990</td>
<td>-1,150</td>
<td>-2,140</td>
</tr>
<tr>
<td>1961</td>
<td>8,530</td>
<td>8,300</td>
<td>1,260</td>
<td>9,560</td>
<td>-1,030</td>
<td>-1,140</td>
<td>-2,170</td>
</tr>
<tr>
<td>Average 1959-1961</td>
<td>8,280</td>
<td>8,010</td>
<td>1,170</td>
<td>9,180</td>
<td>-900</td>
<td>-1,120</td>
<td>-2,020</td>
</tr>
<tr>
<td>Projections</td>
<td>9,710</td>
<td>10,070</td>
<td>1,390</td>
<td>11,460</td>
<td>-1,750</td>
<td>-790</td>
<td>-2,540</td>
</tr>
<tr>
<td>1970</td>
<td>10,800</td>
<td>11,710</td>
<td>1,430</td>
<td>13,140</td>
<td>-2,340</td>
<td>-350</td>
<td>-2,730</td>
</tr>
</tbody>
</table>

* Excluding Cuba.

(1) Additional purchasing power obtainable through an improvement in the external terms of trade

157. In the foregoing analysis, exports were projected as increasing at the rate of 2.7 per cent. If the external terms of trade continue to fall as they did in the fifties, the volume of exports would have to expand proportionately in order to maintain the level of purchasing power envisaged.

158. In order to show the extent to which the deterioration in the terms of trade has been instrumental in reducing Latin America's rate of growth, and to indicate what would be likely to happen if they improved, some data will be given on the extra volume of purchasing power that would be obtained if Latin America's traditional exports achieved in 1966 and 1970 the purchasing power in terms of imports that they had in 1950-1954 (see table 40).

159. The relevant calculations show that if by some means the purchasing power of exports were to be increased until its unit purchasing power was the same as in 1950-1954, the additional income accruing would be equivalent to the deficit on current account envisaged in the projections based on the hypothesis of a 2 per cent increase per capita.

160. This means that Latin America would be able to pay for projected imports and to service its current investment and debts. In certain conditions, the increase in direct investment and the net inflow of foreign capital would produce sufficient additional resources to enable it to step up its past rate of growth.

161. It should be stressed that these estimates are based on aggregates for Latin America as a whole, and are merely intended to provide some elements for quantifying the problems. A more detailed analysis on the same lines would entail a separate examination of each country and export item since, as pointed out before, there are short-term fluctuations in the terms of trade indices, and even more marked variations in the volume of exports.

(2) The gap between Latin America's import requirements and purchasing power

162. The foregoing projections assume a specific rate of import substitution and an economic growth target of 2 per cent per capita.

163. In order to determine Latin America's foreign trade requirements and to provide some bases for analysing the fundamental aims of foreign policy in the light of the region's development needs, it has been thought advisable to make, for each country, a more detailed study of import demand, the tempo at which import substitution is likely to proceed and the size of the potential deficit in external purchasing power, due allowance being made for the servicing of current investment and debts.

164. For the purposes of this analysis, it has been assumed that up to 1965 or 1966 the per capita rate of growth will be slightly higher than before and that
it will remain at around 2 per cent, rising in the second half of the decade to 3 per cent.

165. A rate of 3 per cent is not easily accessible to the Latin American economies under present internal and external conditions. But it is a reasonable planning objective for the second half of the decade, and cannot be regarded as unduly optimistic if minimum consumption and employment targets are to be fulfilled, given the present level of living and a population that is increasing at an annual rate of 3 per cent.

166. What is attempted here is to determine the minimum resources required to achieve certain development targets, or, to put it another way, to discover the size of the gap between import requirements and purchasing power with a view to establishing the objectives of a national or international policy designed to promote the progress of the developing countries.

(4) Import requirements

167. In view of the different economic growth structures and stages of development reached by the Latin American countries, a technical analysis will have to be made by countries and types of commodities in order to calculate import requirements. Imports have therefore been classified in five groups: (a) non-durable consumer goods; (b) durable consumer goods; (c) intermediate goods; (d) fuels; and (e) capital goods.

168. The functional ratios existing in the last thirteen years between imports of consumer goods and total consumption or domestic income, between imports of fuels and intermediate goods and the domestic product and between imports of capital goods and domestic investment have been worked out for each country. These ratios are expressed in terms of elasticity coefficients that reflect the variations of each of the five categories of imports in relation to the evolution of total consumption, the product, income and domestic investment.

169. The elasticity coefficients thus obtained are presented in per capita terms in table 41. In some cases, the correlations are not particularly significant as the variables have been affected by such factors as restrictive measures, changes in composition and shortcomings in national statistics.

170. Nevertheless the comparison yields some interesting conclusions, which are given below.

(a) Fuels

171. In most countries, fuel imports have increased more rapidly than the gross product. In fact, the coefficients of per capita product elasticity are higher than unity in Brazil, Ecuador, Peru, Uruguay and all the Central American countries. They are
lower than unity and influenced by various factors—local production, the tempo of import substitution and changes in composition—in Chile, Colombia and Mexico. Some of these countries do not import much fuel and fuel imports thus carry little weight.

172. Generally speaking, it may be concluded that import demand for fuels in non-producing countries will tend to expand more than the gross product, thereby bringing pressure to bear on the over-all import coefficient (see table 41).

(b) Intermediate goods

173. Imports of intermediate goods follow the same behaviour pattern as fuels, despite the substitution process taking place in a number of Latin American countries. Mexico is the only country in which the elasticity coefficients—technically significant—are lower than unity. While this is also true of Brazil, its coefficient is less valid. In the majority of countries, aggregate imports of intermediate goods have kept pace with or outstripped the growth of the domestic product. The particularly high coefficient for Argentina may be partly a question of deficiencies in industrial production statistics or may be due to limitations imposed by other factors, but, in any case, demand for intermediate goods is known to have increased rapidly in that country notwithstanding import substitution.

(c) Capital goods

174. In the last thirteen years imports of capital goods increased on a par with, or more rapidly than, domestic investment in half the Latin American countries. Particular circumstances, such as changes in investment composition, import controls and even statistical shortcomings detract from the significance of the coefficients in some countries. Moreover, it is clear that the import substitution process in Brazil and Mexico is already having an effect on imports of capital goods there.

175. The high import content of domestic investment means that imports of capital goods would increase rapidly if the product’s rate of growth were accelerated.

(5) Total import requirements and potential deficit

176. On the basis of the foregoing elasticity coefficients, and, in some cases, of input content coefficients, an estimate has been made of Latin America’s import requirements and potential deficit should the per capita economic rate of growth rise to 3 per cent (or 6 per cent in over-all terms) during the remainder of the present decade and should import demand continue as before (see table 42). Import requirements would climb from $8,000 million in 1960 to $11,500 million in 1966 and to $14,000 million in 1970. The average import coefficient would tend to increase from 11.2 to 12.0 per cent. Demand for capital goods, intermediate goods and fuels would all play an important part in determining this increase, but more especially the demand for capital goods.

177. The increase in imports of capital goods is seen to depend on replacements and on the amount by which production capacity would have to expand to raise the average over-all growth rate of the domestic product to 6 per cent from 1965 onwards. On the other hand, imports of fuels and intermediate goods would be able to keep up with this rate of growth because of their high elasticity.

178. The group of countries which previously had a relatively open growth structure will, according to the projection, tend to maintain the same pattern of behaviour as in the last thirteen years. Their total volume of imports, while somewhat smaller than that of the other groups, none the less has a bearing on the estimate of total requirements.

179. On the assumption that exports will increase at an annual rate of 2.7 per cent, the potential deficit on current account would be more than $2,800 million by 1966 and than $4,000 million by 1970. These figures represent the gap between potential import demand and export commitments under the head of profits and interest on current investment and loans on the one hand, and exports on the other, not counting the additional funds required to amortize existing debts (see table 42).

Table 42

Latin America: Projections of imports and of the potential deficit assuming a 3 per cent growth rate in the per capita gross product and continuation of the past trend in the demand for imports (In millions of dollars at 1960 prices)

<table>
<thead>
<tr>
<th>Year or period</th>
<th>Income from exports of goods and net tourist trade</th>
<th>Profits and interest on foreign investment and loans</th>
<th>Total</th>
<th>Deficit on current account</th>
<th>Amortization of existing debts</th>
<th>Deficit on current account and amortization</th>
</tr>
</thead>
<tbody>
<tr>
<td>1959</td>
<td>7,980</td>
<td>7,600</td>
<td>1,070</td>
<td>8,670</td>
<td>-690</td>
<td>-1,070</td>
</tr>
<tr>
<td>1960</td>
<td>8,310</td>
<td>8,130</td>
<td>1,170</td>
<td>9,300</td>
<td>-990</td>
<td>-2,150</td>
</tr>
<tr>
<td>1961</td>
<td>8,530</td>
<td>8,300</td>
<td>1,250</td>
<td>9,550</td>
<td>-1,030</td>
<td>-2,170</td>
</tr>
<tr>
<td>Average</td>
<td>8,280</td>
<td>8,010</td>
<td>1,170</td>
<td>9,180</td>
<td>-900</td>
<td>-2,020</td>
</tr>
<tr>
<td>Projections</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1966</td>
<td>9,960</td>
<td>11,450</td>
<td>1,390</td>
<td>12,840</td>
<td>-2,880</td>
<td>-3,670</td>
</tr>
<tr>
<td>1970</td>
<td>11,280</td>
<td>14,170</td>
<td>1,430</td>
<td>15,600</td>
<td>-3,320</td>
<td>-4,710</td>
</tr>
</tbody>
</table>

* Excluding Cuba.

* Excluding net services.

* Tentative estimate.
the current debt and to service new investment and additional debts that might be incurred.

(b) On the assumption that import substitution will increase

180. In order to have a point of reference representing minimum import requirements, an alternative hypothesis has been put forward envisaging an intensification of the substitution trend in the last few years.

181. Two estimates have been made. One, to be referred to as A, is based on the assumption that the countries where import substitution is making most progress will reduce their import coefficients in the sixties to the same extent as in the past, while those that increased their import coefficients, particularly the Central American countries, Chile, Ecuador and Peru, will maintain them at the same level.

182. The second estimate, to be termed B, assumes a “normal ratio” between the volume of imports and the volume of the domestic product, in keeping with their current levels in Latin America. In this case, the countries with relatively high import coefficients would tend to reduce them, supposedly by resorting to intensive substitution or restriction, until they had acquired the same structure as the countries where substitution is well advanced (see figure VI). The two estimates should be considered as representative of a process of intensified import substitution or restriction.

183. Estimate A shows that if exports expand at the rate of 2.7 per cent annually, the gap in transactions on current account would amount to $1,300 million by 1966 and $1,500 million by 1970 (see table 43).

184. The deficit revealed by estimate B would be $1,600 million by 1966 and $2,500 million by 1970. In both cases the potential deficit would tend to exceed

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**TABLE 43**

Latin America: Projections of imports and of the potential deficit, assuming a 3 per cent increase in the per capita product and expansion in the process of import substitution

*(In millions of dollars at 1960 prices)*

<table>
<thead>
<tr>
<th>Year or period</th>
<th>Income from exports of goods and net tourist trade</th>
<th>Expenditure</th>
<th>Profits and Interest on foreign investment and loans</th>
<th>Total</th>
<th>Deficit on current account</th>
<th>Amortization of existing debtsb</th>
<th>Deficit on current account and amortization of existing debts</th>
</tr>
</thead>
<tbody>
<tr>
<td>1959</td>
<td>7,980</td>
<td>7,600</td>
<td>1,070</td>
<td>8,670</td>
<td>-690</td>
<td>-1,070</td>
<td>-1,760</td>
</tr>
<tr>
<td>1960</td>
<td>8,310</td>
<td>8,130</td>
<td>1,170</td>
<td>9,300</td>
<td>-990</td>
<td>-1,150</td>
<td>-2,140</td>
</tr>
<tr>
<td>1961</td>
<td>8,530</td>
<td>8,300</td>
<td>1,260</td>
<td>9,560</td>
<td>-1,030</td>
<td>-1,140</td>
<td>-2,170</td>
</tr>
<tr>
<td>Average 1950-1961</td>
<td>8,280</td>
<td>8,010</td>
<td>1,170</td>
<td>9,180</td>
<td>-900</td>
<td>-1,120</td>
<td>-2,020</td>
</tr>
</tbody>
</table>

**Hypothesis A**

| 1966          | 9,960                                         | 9,880       | 1,390                                                | 11,270 | -1,310                   | -790                          | -2,100 |
| 1970          | 11,280                                        | 11,370      | 1,430                                                | 12,800 | -1,520                   | -390                          | -1,910 |

**Hypothesis B**

| 1966          | 9,960                                         | 10,220      | 1,390                                                | 11,610 | -1,650                   | -790                          | -2,440 |
| 1970          | 11,280                                        | 12,420      | 1,430                                                | 13,850 | -2,570                   | -390                          | -2,960 |

a Excluding Cuba.  
b Including net services.  
c Tentative estimate.
the current level. It should be borne in mind that, as in the case of the other hypotheses, no provision has been made for amortization of current debts or the servicing of new investment and debts.

185. According to estimate A, the import coefficient would drop from its present level of 11.2 to 10.5 in 1966 and 9.7 in 1970. Its decline is a product of the trends in the following countries: Argentina (from 8.3 to 8.0 and 7.7); Brazil (8.4 to 6.9 and 5.6); Colombia (7.6 to 6.3); Mexico (11.1 to 8.5) and Venezuela (17.5 to 12.1). In most of these cases such reductions would be very difficult to achieve, especially as more capital goods would be needed to step up the product's rate of growth.

186. Estimate B envisages a slower decline in the average import coefficient from 11.2 to 10.5 in the course of the decade. It is, however, expected that Venezuela's import coefficient, which is 17.5 at present, will be drastically reduced to 10.4 by 1966.

187. It is thus generally apparent from both estimates that, during the sixties, the total import coefficient would have a limit of approximately 10 per cent, which may be hard to achieve under certain development conditions, particularly if capital goods requirements are taken into account.

188. To sum up, the difference between requirements and commitments under the head of profits and interest on current investment and debts on the one hand, and projected exports on the other, would fluctuate from $1,500 to $2,900 million by 1966 and from about $2,600 to over $4,000 million in 1970, depending on whether import substitution and restriction increase sharply or whether the same pattern of import demand is maintained as in the past.

189. The conditions in and the profitability and efficiency with which the Latin American countries would be able to press forward with the process of import substitution and achieve the minimum targets specified will not be dealt with here. In any case, whatever doubts are entertained about these projections, it is obvious that unless Latin America improves its external purchasing power it will not be able to increase its present rate of growth.

190. The potential deficit revealed in the hypothesis of a 3 per cent rate of growth would have to be covered in some or all of the following ways:

(a) Increasing the purchasing power of traditional exports;
(b) Expanding the volume of traditional exports;
(c) Diversifying exports so as to share in the market for manufactured products;
(d) Intensifying import substitution within reasonable limits;
(e) Obtaining adequate international financial co-operation.

E. Development policy, foreign trade and international financial co-operation

191. A study of the economic and financial status of the Latin American countries, and an evaluation of their development prospects within the existing world panorama, makes it clear that a deliberately-planned economic development policy must take into consideration, simultaneously and on an integrated basis, both internal and external problems.

192. The inadequacy of the means projected in the preceding chapter, even for the attainment of growth targets as modest as that of 2 per cent per capita, calls for energetic measures which will enable available production capacity to be fully utilized, the productivity of resources improved and national savings increased, in order to form the additional capacity required for the acceleration of the present rate of income growth.

193. Even if significant co-operation or financial assistance were obtained from abroad, this alone would not suffice to ensure social and economic development, without the introduction of the basic reforms that ECLA has been insistently advocating.

194. The acceleration of the rate of development, whether 5 or 6 per cent per annum is the target proposed, fundamentally depends upon the formation of capital whose import component averages 24 per cent for the region as a whole, and in many countries is much greater.

195. In turn, the raising of income levels and the expansion of internal economic activity necessitate increasing quantities of fuel, intermediate products and certain consumer goods, despite the intensification of the import substitution and restriction processes discussed in earlier pages.

196. Consequently, during the next five or six years, imports will have to be increased to substantial figures, whose orders of magnitude, as indicated in the projections analysed in the preceding chapter, speak for themselves, whatever may be the objections to analyses of this nature.

197. It is therefore a wide gap that opens between import requirements and current financial commitments under the head of investment and loans, on the one hand, and, on the other, the capacity for payment that Latin America is likely to have at its disposal, given the circumstances and prospects that may reasonably be foreseen today, unless the external factors limiting the region's economic growth take a turn for the better.

198. This gap will have to be filled by means of a substantial improvement of external purchasing power, in terms of exports and of international financial co-operation in conditions that represent a less heavy burden than is implied by external financing today.

199. No technical analysis can overlook the fact that there will be a period of transition before internal reforms and a new structure of foreign trade, whose materialization depends upon decisions that must be adopted by the industrial countries and the international financing centres, can ensure the new structural conditions required for development. In the interim, there will have to be an increase in domestic investment and in imports from outside the region.

To achieve the latter, Latin America's only resources are its traditional products, and the new conception
of the means and ends of international financial co-operation that should be developed.

(2) Expansion of external purchasing power as one of the key objectives of Latin America's development policy

200. Consequently, investigation of the possible means of improving Latin America's external purchasing power, and the formulation of practical proposals to this end, is one of the substantive topics of the present background document for the United Nations Conference on Trade and Development. In the projections that were analysed in the preceding chapter, one of the hypothesis adopted was an annual increase of 2.7 per cent in exports during the decade under discussion. In connexion with this hypothesis three observations are pertinent: in the first place, if the terms of trade deteriorate, the volume of exports will have to expand proportionately to allow for the attainment of the proposed level of purchasing power. Secondly, an increase in external purchasing power at the specified rate will not suffice, especially in the immediate future, to meet Latin America's import requirements, if the individual countries hope to improve their rate of growth. Lastly, the hypothesis is unlikely to be fulfilled, if due account is taken of the limiting factors that have operated up to now and threaten to become more serious in future.

(a) Need to improve purchasing power in terms of Latin America's traditional trade items

201. It has already been pointed out that the factors limiting potential demand for the basic commodities produced by Latin America are of a structural nature in some cases, while others—those that have been most influential—derive from the policy pursued by the industrial countries, particularly those of western Europe, which has resulted in the ousting of Latin American products from local and world markets.

202. Consequently, the Latin American countries' possibilities of increasing their purchasing power on the basis of their primary exports fundamentally depend upon the decisions that the industrial countries are prepared to adopt. This is why at the present time the industrial countries carry a supreme responsibility in relation to the economic development of Latin America and of the developing areas in general; on their attitude and on their decisions will depend the course to be taken by Latin America's development and the structure of its foreign trade.

203. In addition, the incorporation in world trade of developing areas with competing lines of production has not been without its repercussions. The problem will have to be tackled through the agreements which in one way or another may be concerted with the countries in question.

204. The problem of basic commodities will be discussed later in the present document in connexion with the traditional exporting areas and with the expansion of trade to new regions. As regards the former, it is natural that, faced with a deteriorating situation, their immediate objective should be to prevent its becoming still worse. Nevertheless, as was shown in the preceding chapter, this is not enough, since existing conditions are already highly unsatisfactory.

205. The measures suggested in the present document constitute an attempt to shape an integrated policy for producing and for importing countries. Such measures must make for the expansion of exports and the improvement of prices; that is, in the last analysis, they must help to raise the aggregate purchasing power of Latin America's traditional export commodities.

(b) Expansion of commodity trade with other areas

206. The possibilities of exporting Latin America's traditional products to other areas should be explored with a view to the diversification of markets. In this connexion, consideration should be given to other developing countries and to the centrally-planned economies, since the expansion of trade with these areas has been relatively very limited.

207. The expansion of trade with the centrally-planned economies has two main aspects: one is the possibility that these countries will open their markets to Latin America's traditional products by limiting their aim of self-sufficiency or by relaxing their restrictions on consumption of some of Latin America's major export items; the other is the possibility of discovering formulas for institutional arrangements by virtue of which trade can be carried on despite the differences between the economic systems of the areas concerned. A point of special importance is that negotiations would be greatly facilitated and trade encouraged were the centrally-planned economies to establish transferability of balances within their own area and, eventually, with other parts of the world.

208. Commodity trade with developing areas is naturally encountering insurmountable difficulties in respect of competing lines of production or of items to which local protection is accorded; it is clear, however, that there are prospects of speeding up such trade in some staple primary commodities, should the purchasing power of the areas in question increase.

(3) Need for diversification of Latin America's export trade through the incorporation of new items

209. The only means that Latin America has of bettering its position over the short term is to achieve an expansion, either directly or indirectly, in its traditional export trade, thereby adding to its purchasing power by a relatively substantial amount. With the passage of time, however, structural factors will once again come into play and will tend to keep the formation of external purchasing power below the level required for development. Latin America will therefore have to diversify its export trade by introducing new items.

210. To obtain sanction for measures and conditions essential to the achievement of this diversification must be another of the fundamental objectives
pursued at the United Nations Conference on Trade and Development.

211. The process of diversification should be conducted on a complementary basis and along several lines: (a) by increasing the degree of industrial processing of primary commodities for export; (b) by incorporating in the primary commodities category new items in respect of which Latin America enjoys competitive advantages; and (c) by securing a foothold in the world market for manufactured goods.

212. The new export lines should be considered in relation both to the industrial countries with whom traditional trade links are maintained and to the centrally-planned economies and other developing areas. A new "export consciousness" will have to be developed and a consistent policy formulated and put into effect within the Latin American countries. At the same time preferential treatment must be obtained from the industrial countries and other areas, or appropriate agreements established with a view to attainment of the objectives of a diversification policy.

213. Chapter III (B) of the present document is devoted to a discussion of the question of export diversification.

214. Special mention must be made of exports of manufactured goods. The analysis made in chapter III (C) of the present document shows that Latin America is capable of developing its competitive capacity to such an extent that it could expand its trade in such items. What is asked of the industrial countries in the way of concessions or preferential treatment is very little if their levels of production and income are taken into account, but the gain to Latin America over a short period of time would be relatively significant from the standpoint of strengthening its external purchasing power and enabling it to cope with its import requirements in the context of a less insecure and vulnerable foreign trade structure.

215. In chapter III (D) specific proposals are analysed which might constitute the policy objectives to be discussed at the Conference in this field.

(4) Immediate and medium-term objectives for development and foreign trade policy

216. In short, the suggestion formulated in the present document is that the industrial countries with higher income levels should take part in the formulation of an international policy to promote the economic and social development of the Latin American countries and of developing areas in general, by means of an expansion of foreign trade channelled through a structure designed to serve the interests of all with greater efficiency.

217. The end pursued is that these countries, adopting wider views and aims, should take the decisions that are needed if foreign trade is to discontinue constituting a bottleneck in relation to economic growth and once again become an instrument for the development of countries with low income levels, in accordance with a conception appropriate to present world circumstances and prospects.

218. It is patent that the policy followed by the financial and industrial centres is far from conducive to the optimum utilization of resources, and that this redounds to the immediate and considerable detriment of countries with low levels of living whose trade has hitherto specialized in primary lines of production. On the other hand, whatever increment in the purchasing power of the developing countries was achieved in one way or another would be increasingly used to buy capital goods and intermediate products from the industrial countries.

219. In the immediate future, the Latin American countries, like the other developing areas of the world, must depend upon their traditional export commodities, and it is on the basis of these that they must increase their purchasing power. The establishment of the practical mechanisms of an international policy with this aim in view constitutes an objective whose attainment is a matter of pressing necessity.

220. Part of the additional purchasing power acquired would be immediately earmarked in the developing countries for the investment needed to effect readjustments in specific branches of primary production, while their foreign trade was being gradually diversified.

(5) Co-operation and financial assistance for developing countries

221. In so far as the structure of the world economy precludes the development of a foreign trade capable of satisfying the requirements of developing countries for the purposes of attaining satisfactory rate of growth, it will be necessary to devise appropriate mechanisms for a practical system of co-operation and financial assistance that will help to close the gap between the import requirements and the purchasing power of the developing countries in question. In any event, such assistance will be indispensable to help these countries through a transition period.

222. The study of the region's financial status in the present document shows that the balance-of-payments positions of the Latin American countries have reached a crisis which will become still more acute as a result of the magnitude of forthcoming commitments under the head of interest and amortization payments on outstanding debts, in the case of many countries in the region. Various considerations and circumstances lead to the conviction that the gap cannot be closed on the basis of direct investment alone; nor is it conceivable that the Latin American countries would be in a position to cope with further amortization and interest commitments deriving from new debts. Consequently, whatever increased external financing is provided will have to be arranged on a basis of deferring and reducing interest and amortization payments until the transition period is over.

223. In this field, international financing institutions and foreign Governments should participate in setting up a consistent system, so that international action is geared to the establishment of stable economic and financial conditions whereby countries with low income levels may be enabled to attain minimum development targets.

224. It is in this connexion that the present document suggests to the Conference on Trade and
Development, in essence, the determination of a foreign trade and financing policy which may become the instrument of the economic development of the two-thirds of the world's population that enjoy not more than one-fourth of total income.

225. It is not a matter of merely agreeing on pacts or measures relating to this or that group of commodities; nor would the problem of the developing countries be solved by transitory assistance, however generous, because at most such aid would only alleviate conjunctural tensions. On the contrary, this is an opportunity to reach agreement on basic measures which will present the developing countries with the new world picture to which reference has constantly been made; and in this context everything must depend, in the last analysis, upon the decisions that the countries with higher income levels are prepared to adopt.

Chapter II

THE MAIN OBSTACLES TO AN EXPANSION OF LATIN AMERICA'S FOREIGN TRADE

A. GENERAL CONSIDERATIONS

226. The foreign trade problems confronting Latin America and their effect on the rate of growth have been described in general terms in the preceding chapter. Let us now consider more carefully the obstacles which have been largely responsible for the adverse trends in the external sector. More specifically, let us analyse the foreign trade policy of the main areas and their effect on Latin America's traditional trade, the position of the chief traditional export commodities, the difficulties and limitations affecting the export of manufactures and the imbalance in the foreign trade of invisibles. Lastly, an over-all evaluation will be attempted of some of the principal changes which have occurred in Latin America's foreign trade as a result of these factors.

227. In the present analysis of Latin America's foreign trade problems, particular attention is paid to factors on the demand side. Those relating to the supply side are considered only with respect to specific items, not because of any desire to under-estimate their importance but merely because their solution depends more on the internal decisions of each country or of the region as a whole and less on decisions taken at the international level, although these may facilitate the adoption of internal decisions and ensure their effectiveness.

B. THE TRADE POLICY OF THE MAJOR AREAS OF THE WORLD AND ITS EFFECT ON LATIN AMERICA'S TRADITIONAL TRADE

228. A broad study of the foreign trade policy applied by the principal industrialized centres reveals that its more important characteristics are: a desire to achieve a high degree of fluidity in respect of reciprocal trade in manufactured products, fuels and basic raw materials for industry; discriminatory treatment of, and high internal taxes on, tropical agricultural commodities in some European countries and liberal treatment of these same commodities in the United States; and a generally restrictive policy—both in the United States and in Europe—with respect to imports of temperate-zone agricultural commodities from the developing countries although the methods applied are not the same.

229. As far as the countries with centrally-planned economies are concerned, their development plans have resulted so far in a policy of import restriction on a number of consumer goods of concern to Latin America.

230. It is hardly possible to draw any further general conclusions as to the significance, for the developing countries' trade, of the relevant machinery and procedures used by the industrialized countries. Accordingly, it has been thought advisable to continue the analysis on the basis of a more extensive examination of the outstanding characteristics of the most representative groups of countries. To that end, the United States, the European Economic Community and the United Kingdom are dealt with separately, and a description is given of prevailing practices in the large industrialized market-economy countries that have most influence on Latin America's traditional export trade. The description is not exhaustive, nor does it enter into details concerning the respective mechanisms.

231. As stated before, the industrialized countries with centrally-planned economies should also be included in the groups whose economic policy is restricting Latin America's export trade. There seems to be no doubt that the way in which the development policy of the centrally-planned economies has been framed systematically favours domestic production and, in recent years, the COMECON bloc, and that this, added to the persistent use of such instruments as bilateral payments agreements, has reduced the possibilities for trading with the developing countries. However, the following statement does not cover the centrally-planned economies, the description of the obstacles and difficulties that hamper trade with them being left to chapter III, which deals with the region's export prospects, since trade with the socialist countries represents a possibility which, to be realized, requires not only the elimination of such obstacles and difficulties, but also the systematic adoption of other specific measures.

(1) The foreign trade of the United States

232. A study of the effect of United States policy on Latin America's foreign trade will show that the measures applied to agricultural production are clearly the main factor. These measures have produced major changes in the relative position of these countries which have traditionally had a share of the trade in certain products, particularly temperate agricultural commodities.
233. The system of price supports—initiated immediately after the Depression—has led to a considerable increase in output. Production rose to peak levels which are still being maintained in spite of the accumulation of stocks. Subsidies, for their part, have increased the flow of exports from the United States and have enabled them to compete on advantageous terms with exports from the less developed areas. United States exports of a group of agricultural commodities consisting of grains and grain products, vegetable oils and fats, oilseeds, edible animal fats and oils, unprocessed farm products and cotton—have increased in value from an annual average of $425 million in 1936-1940 to over $2,800 million in 1956-1960; in 1960 they amounted to $3,350 million, or 16.5 per cent of total United States exports (see table 44).

234. The incentives provided by the direct subsidies to agriculture and to exports have, of course, been largely responsible for the sharp rise in United States exports of agricultural commodities. In 1960 these subsidies amounted to nearly $4,700 million, and were only slightly below that figure in 1961 (see table 45). Of major importance, too, were United States exports of agricultural commodities through non-commercial channels, chiefly in conformity with Public Law 480 of 1954.10

235. The volume of commodities exported under these conditions in the financial year 1961-1962 represented nearly $1,600 million or 31 per cent of current United States agricultural commodity exports (see table 46). Proportions fluctuated widely in that financial year depending upon the commodity concerned—from 23 per cent for maize and 24 per cent for cotton to 29 per cent for edible vegetable oils, 44 per cent for rice and 70 per cent for wheat.

236. The agreements reached as of 30 June 1962 under the provisions of Public Law 480 represent about $10,850 million, of which 7.7 per cent concern exports to Latin America itself. For a single item—wheat—these agreements involve over 67 million tons, or two and a half times the total volume of Latin America’s exports for the period 1954-1962, which is approximately when the agreements were reached. Payment is made in the currency of the country of destination, with credit facilities for as long as thirty years and subsidies of up to 60 per cent of the value of the exports.11 It is therefore quite clear that these transactions have severely reduced Latin America’s prospects of a share in the expanding world market for these commodities. This in no way minimizes the importance of the aid which these transactions represent for some developing countries, including those in Latin America.

237. Special protection is also granted to local sugar producers. The United States is the world’s largest sugar importer and under its protective measures local producers are assured of 50 per cent of the domestic market, secure from foreign competition and at prices that offset costs. Imports are subject to quantitative restrictions based on two types of quota: (1) by country, with preferential quotas granted to the Philippines and the Latin American countries; (2) the global quota, designed to meet consumption deficits by purchases on the world market. The global quota is subject to variable import duties (similar to the EEC’s “variable levies”) which absorb differences between the domestic price in the United States and the world market price. The country quotas, on the other hand, are subject to lower taxes (a fifth of those levied on the global quota) which, in

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**Table 44**

United States: Exports of selected agricultural commodities, 1936-1960

(In millions of dollars)

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Grains and preparations</td>
<td>105</td>
<td>174</td>
<td>205</td>
<td>143</td>
<td>1416</td>
<td>1370</td>
<td>1297</td>
<td>1420</td>
<td>1650</td>
</tr>
<tr>
<td>Vegetable oils and fats</td>
<td>8</td>
<td>45</td>
<td>77</td>
<td>119</td>
<td>211</td>
<td>218</td>
<td>185</td>
<td>212</td>
<td>200</td>
</tr>
<tr>
<td>Oilseeds</td>
<td>4</td>
<td>6</td>
<td>39</td>
<td>132</td>
<td>272</td>
<td>245</td>
<td>217</td>
<td>318</td>
<td>361</td>
</tr>
<tr>
<td>Animal oils and fats, edible</td>
<td>17</td>
<td>107</td>
<td>84</td>
<td>91</td>
<td>68</td>
<td>77</td>
<td>54</td>
<td>63</td>
<td>63</td>
</tr>
<tr>
<td>Dairy products</td>
<td>8</td>
<td>182</td>
<td>201</td>
<td>94</td>
<td>112</td>
<td>121</td>
<td>101</td>
<td>96</td>
<td>87</td>
</tr>
<tr>
<td>Cotton, unmanufactured</td>
<td>283</td>
<td>152</td>
<td>674</td>
<td>761</td>
<td>778</td>
<td>1059</td>
<td>661</td>
<td>452</td>
<td>588</td>
</tr>
<tr>
<td><strong>A. Sub-total</strong></td>
<td>425</td>
<td>666</td>
<td>2280</td>
<td>2340</td>
<td>2857</td>
<td>3090</td>
<td>2515</td>
<td>2561</td>
<td>3349</td>
</tr>
<tr>
<td><strong>B. Total United States exports</strong></td>
<td>3167</td>
<td>9922</td>
<td>11673</td>
<td>15196</td>
<td>19019</td>
<td>20671</td>
<td>17745</td>
<td>17438</td>
<td>20300</td>
</tr>
<tr>
<td><strong>A as percentage of B</strong></td>
<td>13.4</td>
<td>6.7</td>
<td>19.5</td>
<td>15.4</td>
<td>15.0</td>
<td>14.9</td>
<td>14.2</td>
<td>14.7</td>
<td>16.5</td>
</tr>
</tbody>
</table>


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10 Public Law 480 (1954) declares it to be the policy of Congress "to expand international trade among the United States and friendly nations, to facilitate the convertibility of currency, to promote the economic stability of American agriculture and the national welfare, to make maximum efficient use of surplus agricultural commodities in furtherance of the foreign policy of the United States, and to stimulate and facilitate the expansion of foreign trade in agricultural commodities produced in the United States by providing a means whereby surplus agricultural commodities in excess of the usual marketings of such commodities may be sold through private trade channels, and foreign currencies accepted in payment therefor. It is further the policy to use foreign currencies which accrue to the United States under this Act to expand international trade, to encourage economic development, to purchase strategic materials, to pay United States obligations abroad, to promote collective strength, and to foster in other ways the foreign policy of the United States." (Section 2 of Public Law 480, 83rd Congress.)

TABLE 45  
United States: Subsidies for agriculture and for exports of agricultural commodities, 1954-1961  
(In millions of dollars)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>540</td>
<td>1,075</td>
<td>1,846</td>
<td>3,564</td>
<td>3,242</td>
<td>3,484</td>
<td>3,568</td>
<td>3,433</td>
</tr>
<tr>
<td>Commodity Credit Corporation, change in value of agricultural stocks</td>
<td>1,700</td>
<td>1,686</td>
<td>1,577</td>
<td>231</td>
<td>510</td>
<td>740</td>
<td>1,120</td>
<td>895</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>2,240</td>
<td>2,761</td>
<td>3,423</td>
<td>3,795</td>
<td>3,752</td>
<td>4,224</td>
<td>4,688</td>
<td>4,328</td>
</tr>
</tbody>
</table>


...practice, enable the countries concerned to obtain a higher net price than is paid for sugar imported under the global quota. Spurred on by these incentives, local beet production rose by some 50 per cent during the past fifteen years. Even though Latin American exports are granted preferential treatment, it must be pointed out that quantitative restrictions and discriminatory measures reduce the prospects for sugar exporters wishing to trade in the United States market.

238. The United States is also the world's largest importer of red meat. However, Latin America's share of this market is very small in view of the restrictions imposed on health grounds. On the other hand, there has been a considerable increase in United States imports of meat from Australia and New Zealand, countries in which health problems do not arise and whose flow of exports is being diverted from the United Kingdom to the United States market.

239. The combined effect of the measures referred to above—coupled with factors of a different type—may be seen from the relative positions of Latin America and North America—including Canada, because of the type of data available—in world exports of the principal temperate-zone agricultural commodities (see table 47).

240. There have recently been some changes in this policy, designed to reduce incentives to agricultural production in the United States through restrictions on acreage under seed and lower price supports. The United States, moreover, consults the exporter countries concerned whenever it must sell its surplus in their areas of influence. However, there is some difficulty in forecasting the extent to which these changes may reverse the conditions adversely affecting Latin America's prospects, particularly in view of the high prices prevailing on the United States market and the possible effect on these prices of diminishing inventories and the recent increase in trade between the United States and the countries with centrally-planned economies. Moreover, the intensive campaign undertaken by Uruguay and Argentina against foot-and-mouth disease may lead shortly to a reopening of the United States market for Argentine meat.

241. With respect to raw materials and fuels, United States trade policy has been generally favourable. However, an increase in Latin American exports to the United States is being presented by tariffs and import quotas designed to protect domestic production, particularly of petroleum, lead and copper.

242. For petroleum, existing provisions are more liberal for neighbouring sources of supply (Mexico and Canada) than for other exporters. Moreover, import quotas are adjusted on the basis of the output of United States oil wells. Many import regulations derive from the peculiar, highly monopolized, organization of the international petroleum market.

243. The different customs tariffs applied, depending upon the stage of processing of the raw materials concerned, also have a major impact on Latin America since they discourage the area from developing its own processing facilities and from engaging in any activity designed to export raw materials at more advanced

TABLE 46  
United States: Exports of agricultural commodities under Public Law 480, fiscal years 1955 to 1962  
(In millions of dollars)

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total, Public Law 480</td>
<td>5,059</td>
<td>1,143</td>
<td>1,371</td>
<td>1,572</td>
<td>9,145</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mutual Security exports</td>
<td>1,636</td>
<td>167</td>
<td>186</td>
<td>74</td>
<td>2,063</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current exports of agricultural commodities</td>
<td>12,395</td>
<td>3,207</td>
<td>3,389</td>
<td>3,493</td>
<td>22,484</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Exports under Public Law 480 as percentage of total United States exports</strong></td>
<td>26</td>
<td>25</td>
<td>28</td>
<td>31</td>
<td>27</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>


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12 In the case of wheat, for example, the price support to be applied in the year 1963-1964 represents only 50 per cent of parity.
...Italy, Luxembourg and the Netherlands—has been self-sufficiency which the signatory States are had been solved by 1950, the objectives set forth in the Treaty of Rome provided further justification for the aims of achieving self-sufficiency in temperate-zone agricultural commodities generally characterized by a desire to achieve self-sufficiency in temperate-zone agricultural commodities and by restrictions and discriminatory measures in favour of associated African territories with respect to tropical commodities. The aim of achieving self-sufficiency in temperate-zone commodities is not new since it was already present well before the establishment of the European Common Market for reasons initially related to the balance-of-payments problems of the countries concerned. Although these problems had been solved by 1950, the objectives set forth in the Treaty of Rome provided further justification for the self-sufficiency which the signatory States are attempting to achieve.

245. The specific measures into which their policies have been translated vary widely, depending upon the type of commodity, the importing country's own agricultural production and other factors. A detailed examination is therefore essential in order to indicate clearly the characteristics and scope of each system.

246. Tropical commodities have been dealt with comprehensively in studies undertaken by different international organizations, particularly GATT and FAO. Here the chief obstacles to Latin American trade in this connexion are high internal duties and charges, high distribution costs for these commodities in EEC countries, and the preferential treatment enjoyed by imports from associated African countries.

247. The influence of the first factor mentioned has been particularly strong, as may be seen by comparing the unit import value of each commodity with the price actually paid by the final consumer: for coffee, the average import price is 23 to 48 per cent of the retail price, the proportion varying between 38 and 45 per cent for bananas and only 9 to 22 per cent for cacao. In other words, the European consumer pays from two to ten times the import price for these commodities. Such high surcharges, even if partly explained by the cost of processing prior to distribution to the consumer, must obviously reduce the demand for these commodities in the markets of the European Economic Community.

248. Some figures will help to show how far these differences are due to internal charges on the commodities concerned. For example, in 1960 and 1961, total duties and charges levied by EEC countries on Latin American coffee amounted to nearly $700 million, whereas the income received by the supplier countries (in terms of the f.o.b. value of their coffee exports) was only $600 million18 (see table 48).

249. High distribution costs have also had a considerable influence. For instance, these costs in Germany and Italy are 280 per cent and 190 per cent higher, respectively, than in the United States, which seems to indicate that their high level can hardly be attributed to the cost of processing. Similarly, it is estimated that in 1962 the distribution costs referred to amounted, in the EEC countries, to $650 million for 670,000 tons of coffee, the f.o.b. export value of which was $500 million.

250. The preferential tariffs granted by the EEC countries to their overseas associates—9.6 per cent for coffee and 5.4 per cent for cacao—are not yet completely in force but may be expected to channel demand towards African exports. What is most important, however, is that France has imposed quantitative restrictions on tropical commodities from outside the franc area and pays less for them. A common external tariff of 20 per cent is applied to bananas, but Latin American bananas are denied access to France and Italy, which obtain their supplies from their former colonies. The Federal Republic of Germany, for its part, avails itself of an exception authorized by the Treaty of Rome and until the African territories...
are in a position to meet its quantitative and qualitative requirements the Federal Republic of Germany will import, free of duty, about 450,000 tons a year from its traditional Latin American suppliers.

251. The restrictions imposed by the EEC on temperate-zone agricultural commodities are both quantitative and in the form of limitations applied through the price mechanism.

252. An example of the former is beef, which is subject to a quota of 22,000 tons and a tariff of 20 per cent. While additional quotas are sometimes authorized, particularly for the Federal Republic of Germany and Italy, official representations made to the Community by Argentina and Uruguay have failed to bring about more liberal treatment for beef.

253. Cereals, for their part, are marketed in the EEC under a system of price supports, prices being provisionally fixed for each individual member country until they are equalized in 1970, when all obstacles to the movement of these commodities within the Community will have disappeared. While there are no quantitative restrictions under the present system, access to the markets of member countries is in fact governed by variable levies, designed to raise the final cost of the imports above the local production price. These variable levies are slightly higher than the existing difference between the c.i.f. price of a specific cereal on the so-called “international” market and the corresponding domestic support price. Member countries can limit their price support to a maximum quantity produced domestically. For instance, France has limited its support of soft wheat production in 1962-1963 to 7.2 million tons.

254. The size of these variable levies varies from country to country and from product to product. For soft wheat, for example, they amount to 58 per cent of the c.i.f. price in the Netherlands and 102 per cent in the Federal Republic of Germany, with ratios between these two in France, Italy and Belgium. For maize, the ratio varies from 7 per cent in Italy to 97 per cent in Germany (for more details and other commodities, see table 49).

255. Pork, eggs and poultry are also subject to official price schemes and imports are governed by

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### Table 49
Average sliding-scale duties applied to imports of grains from third countries, as a percentage of the c.i.f. price, from August 1962 to March 1963

<table>
<thead>
<tr>
<th>Country</th>
<th>Soft wheat</th>
<th>Rye</th>
<th>Barley</th>
<th>Oats</th>
<th>Maize</th>
<th>Sorghum</th>
</tr>
</thead>
<tbody>
<tr>
<td>Belgium</td>
<td>75</td>
<td>30</td>
<td>49</td>
<td>26</td>
<td>47</td>
<td>64</td>
</tr>
<tr>
<td>Fed. Rep. of</td>
<td>111</td>
<td>85</td>
<td>89</td>
<td>63</td>
<td>97</td>
<td>106</td>
</tr>
<tr>
<td>Germany</td>
<td>70</td>
<td>32</td>
<td>41</td>
<td>21</td>
<td>61</td>
<td>79</td>
</tr>
<tr>
<td>France</td>
<td>94</td>
<td>57</td>
<td>7</td>
<td>4</td>
<td>7</td>
<td>35</td>
</tr>
<tr>
<td>Netherlands</td>
<td>68</td>
<td>14</td>
<td>39</td>
<td>26</td>
<td>30</td>
<td>41</td>
</tr>
</tbody>
</table>

Source: FAO, Regional Economic Integration (C.63/10), 12 September 1963, p. 5, table 3.

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### Table 50
Prices of some agricultural commodities within the European Economic Community (1961/62 averages) (In dollars per ton)

<table>
<thead>
<tr>
<th></th>
<th>Wheat</th>
<th>Butter</th>
<th>Beef</th>
<th>Sugar</th>
</tr>
</thead>
<tbody>
<tr>
<td>World market</td>
<td>61.0</td>
<td>673.0</td>
<td>449.0</td>
<td>143.0</td>
</tr>
<tr>
<td>Belgium-Luxemb.</td>
<td>96</td>
<td>1628.0</td>
<td>980.0</td>
<td>251.0</td>
</tr>
<tr>
<td>France</td>
<td>110.0</td>
<td>1586.0</td>
<td>986.0</td>
<td>308.0</td>
</tr>
<tr>
<td>Italy</td>
<td>84.0</td>
<td>1512.0</td>
<td>907.0</td>
<td>253.0</td>
</tr>
<tr>
<td>Netherlands</td>
<td>108.0</td>
<td>1359.0</td>
<td>873.0</td>
<td>318.0</td>
</tr>
</tbody>
</table>


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variable levies identical in nature and purpose with those applied to cereals.

256. In the case of sugar, the Community is normally self-sufficient thanks to high official price supports for sugar-beet and to the protection against outside competition provided by the common external tariff of 80 per cent.

257. As a result of these practices, the prices fixed in the Community for specific agricultural commodities are far higher than world market prices (see table 50).

258. The different prices paid in recent years to wheat and meat producers in various countries are a further indication of the scope and effect of the policy of subsidies. Suffice it to show, for purposes of illustration, that in 1961, for instance, a wheat-grower in Argentina received $38 per ton of wheat, compared with $65 in Australia, $67 in Canada and the United States, $82 in France and over $100 in West Germany and Italy.

259. In the case of raw materials and fuels, protectionist or discriminatory measures are not normally applied through the usual instruments of tariffs or quantitative restrictions. However, as pointed out in connexion with the trade policy of the United States, this does not mean that marketing conditions are completely unrestricted or that an adequate share of the market is available to the less developed countries. In addition to the different tariff rates applied to raw materials depending upon their stage of processing—which prevents the developing countries from exporting them in a more advanced state of refining or manufacture—preferential treatment is granted to areas other than Latin America, largely because of the direct investments which some EEC countries have made in certain areas. For example, Belgium imports most of its copper from the Congo (Leopoldville), while Latin America ranks high in United States copper imports. Similarly, in 1961, France imported relatively much less iron ore from Latin America than did Italy.

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14 The European Economic Community is now studying a French proposal to apply uniform prices within the Community as from 1 July 1964.
260. The United Kingdom is the world’s largest importer of foodstuffs, its annual purchases exceeding $4,000 million, or one-fourth of the world’s food imports. Hence, its trade policy is particularly significant in terms of world trade in foodstuffs.

261. As in the case of the United States and the European Economic Community, here too Latin America’s exports are affected by restrictions and discriminatory measures deriving from domestic agricultural policy and from the preferential treatment enjoyed by the Commonwealth. As a result of these and other factors, Latin America’s share of the trade policy is particularly significant in terms of world trade in foodstuffs.

262. Domestic agriculture is protected not through price-fixing, purchases at incentive prices, or taxes which affect the value of imports, but through direct subsidies to producers. The price supports aimed at through these subsidies are applied to livestock (cattle, sheep, goats and pigs), to livestock products (eggs, wool, milk) and to wheat, barley, oats, rye, potatoes and sugar-beet. Also subsidized are the use of fertilizer and lime, improved farming methods, sanitary measures, etc. The effect of these subsidies will be more readily appreciated when it is realized that they amounted to $959 million during the agricultural year 1960-1961.

263. While the British farmer sells his produce on the domestic market at prices which fluctuate freely and are generally lower than the support price, the Treasury subsequently makes up the difference by granting him additional subsidies. These official British prices are considerably higher than those prevailing in the traditional producer countries.

264. It should be pointed out, however, that the British scheme is an improvement over the EEC system in one respect: the consumer does not have to pay the high prices guaranteed to the farmer. Hence, these do not have the effect of curtailing demand, unlike schemes which directly affect consumer prices.

265. With respect to discriminatory measures, the system of preferential tariffs under the Ottawa Agreement (1932) establishes tariffs for commodities produced outside the Commonwealth: 10 per cent ad valorem for wheat flour, barely, rye and rye flour, 20 per cent for tinned meat, 0.75 of a penny per pound of chilled beef and 0.66 of a penny per pound of frozen meat. On the other hand, wheat and maize, two of the principal cereals imported by the United Kingdom, are tariff-free.

266. The United Kingdom also applies preferences to certain tropical products—bananas, sugar, cacao and coffee—with a view to ensuring a predominant role for the Commonwealth countries. Tariff preferences in the form of specific charges range from 3 to 10 per cent of the c.i.f. value of imports from other regions. But such preferences are of little importance in comparison with the quantitative restrictions formerly imposed, and which, in the case of bananas, continue to be imposed, on imports from what was known as the dollar area. Although most of these restrictions were gradually eliminated in the middle of the fifties, they had established trade channels and production areas with which Latin America has found it hard to compete. In such lines of production as sugar and bananas in which the Latin American countries are able to compete in the United Kingdom market, the Commonwealth continues to be favoured by protective measures, banana producers there being helped by quantitative restrictions and sugar producers by price agreements. Although sugar prices paid in the United Kingdom in the past two years have been below world market levels, in normal times they are higher.

267. With respect to raw materials and fuels, the comments made in connexion with the trade policy of the United States and of the EEC countries also apply to the United Kingdom. While there are no formal restrictions or discriminatory measures, a restrictive effect is exercised by regulations discouraging imports of processed raw materials and fuels, while de facto discrimination is practised through preferential treatment granted under market arrangements in favour of raw materials and fuels from the Commonwealth, as will be shown in greater detail in later sections.

268. The policy followed in the United Kingdom with respect to livestock development could also have serious repercussions for traditional cattle exporters. The price paid to the British farmer is far higher than the consumer price, since the Government pays the farmer the difference between the local and international prices in the form of a deficiency payment. As import prices of beef have dropped considerably, the Government has had to pay a larger subsidy. It has therefore requested the countries that sell chilled meat to restrict the quantities exported with a view to raising the consumer price and thus reducing the subsidy. Argentina has “voluntarily” undertaken to curtail its exports, and although this policy is too recent to be properly evaluated there is no doubt that the high prices paid to the United Kingdom farmer will encourage production and thus eventually lead to a reduction in purchases from traditional suppliers.

C. Position of the Major Export Commodities

269. The earlier sections described in broad outline the trade policy pursued by the major countries in terms of the foreign trade of developing countries. A clear feature of this policy is that it lacks uniformity. While some general traits are discernible, the treatment and position of each particular commodity may be very different. Hence, the references made should be supplemented by more detailed background data giving a clearer picture of the position of a group of commodities, including the most important from the standpoint of Latin America’s traditional trade. With this end in view, tropical commodities, temperate-zone commodities, and raw materials and fuels should be discussed separately.
270. Latin America’s exports of coffee, cacao, and bananas amounted in 1961 to $1,622 million, or slightly over 18 per cent of the area’s total exports. If cotton and sugar—also produced in some developed countries—are added, the value of Latin American exports rises to $2,750 million, or nearly 32 per cent of Latin America’s total exports in 1961.

271. Latin American exports of tropical commodities—particularly coffee, cacao and bananas—are directed chiefly to the United States, which in 1961 absorbed Latin American exports in the following proportions: coffee, 58 per cent; cacao, 45 per cent; bananas, 45 per cent. This concentration is largely because of the discriminatory measures applied by some European countries since the Depression. The United States, on the other hand, did not resort to these restrictions and discriminatory measures, but another determining factor there was the increase in consumption. In 1961 the EEC countries as a whole absorbed 19 per cent of Latin America’s coffee exports, 23 per cent of its cacao exports and 20 per cent of its banana exports, the corresponding figures for the United Kingdom being 1 per cent, 3 per cent and 4 per cent respectively. In the case of coffee, the EEC country which has adopted the severest discriminatory measures since the Depression is France. While the Latin American coffee imported by France in 1930-1932 represented an annual average of over 80 per cent of its total coffee purchases, Latin America’s share in 1961 fell to 23 per cent, French imports having shifted in favour of countries within the franc zone.

272. The sharp contraction in Latin America’s share of the French coffee market is due less to the imposition of tariffs than to quantitative discrimination based on the origin of the commodity. In fact, France has undertaken to purchase 170,000 tons of coffee a year from the franc zone countries and recently signed an agreement with the Ivory Coast for the purchase, at a special price, of 100,000 tons of coffee a year for the next five years. As a result it imported 353,000 tons of bananas tax-free in 1962. It was subsequently authorized to import another 130,000 tons on condition that 7,000 tons came from countries associated with the EEC. The same condition was imposed in 1963, except that this time some 50,000 tons had to be bought from EEC associates.

273. The position with respect to the other EEC countries is different. Between 1955 and 1961, the Federal Republic of Germany, Italy and the Benelux countries increased their total coffee imports by 66 per cent and their coffee imports from Latin America by 63 per cent. On the other hand, France increased its total coffee imports by 8 per cent during the same period, but its coffee imports from Latin America declined by nearly 19 per cent.

274. Tariffs were the method of discrimination practised by the United Kingdom, although quantitative restrictions were applied after the war. Latin America’s share of this market dropped from 49 per cent in 1930-1932 to 27 per cent in 1961, when it imported only 16,400 tons from that area.

275. The effects of discriminatory measures were no less severe in the case of bananas. Latin America is the chief supplier to the Federal Republic of Germany and the Benelux countries but does not export bananas to France and Italy because of the quantitative restrictions imposed by these countries in favour of their overseas associates. Thus, in 1961 France imported all its bananas from its dependent territories, chiefly Martinique and Guadeloupe, while the bulk of Italy’s imports came from Somalia. In the same year 67 per cent of the United Kingdom’s banana imports were supplied by the Commonwealth, Latin America’s share amounting to some 4,000 tons only (4 per cent of the total) in accordance with the small quota allocated to it. Brazil is not included in the quota, but it is not a major banana exporter.

276. The quantitative import restrictions imposed by the EEC on bananas during the past few years have caused a good deal of alarm in Latin America. The EEC commission concerned authorized the Federal Republic of Germany, as from January 1962, to import bananas free of the existing 6 per cent import tax. As a result it imported 353,000 tons of bananas tax-free in 1962. It was subsequently authorized to import another 130,000 tons on condition that 7,000 tons came from the countries associated with the EEC. The same condition was imposed in 1963, except that this time some 50,000 tons had to be bought from EEC associates.

277. The effects of the trade policy pursued by the industrialized countries are reflected not only in the volume of Latin America’s exports but also in lower prices for the commodities concerned.

278. Thus, coffee prices have dropped some 30 per cent during the past few years. This has proved a serious economic loss to most of the Latin American countries, and particularly to the small coffee-growers in the region. Apart from the general decline in world coffee prices, another anomalous factor has adversely affected Latin American exports, namely the price subsidies granted to African coffee by France (which paid $697 per ton in 1960), enabling it to compete on advantageous terms with Latin American coffee on the United States market, where it sold at a price some 40 per cent lower ($445 per ton). This, together with the increase in the consumption of soluble coffee, explains the sharp improvement in sales of African coffee on the United States market in recent years.

279. International banana prices are even more variable than coffee prices. In 1960, prices for Latin American bananas were $143 per ton in the United States and $134 per ton in the Federal Republic of Germany. At the same time, the price for bananas imported from the Cameroons was $186 per ton, and $201 dollars per ton for bananas from Guadeloupe. The United Kingdom paid twice as much for bananas from Jamaica as it did for Latin American bananas. Such sharp price variations cannot be attributed to preferential tariffs since these are low (20 per cent in France and a specific charge of 7s 6d in the United Kingdom, or about 13.7 per cent), but are mainly due to the system of quantitative restrictions based on the origin of the commodity.

280. With respect to cacao, prices have dropped sharply during the past few years owing to the increase

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(1) Tropical commodities: coffee, cacao, bananas

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in production but this trend has recently been reversed
because of the reduction in Latin American output.\textsuperscript{19}

281. Merely for purposes of illustration, it might be
pointed out that if in 1961 France and the United
Kingdom had imported from Latin America the same
percentage of their total consumption as in 1930, their
additional purchases from that area would have
represented, at 1961 prices, a total additional f.o.b.
value of some $120 million.

282. This estimate is based on the following
considerations:

(a) Before the franc zone was formed and the
United Kingdom resorted to preferential treatment
in its coffee imports, Latin America supplied the bulk
of the coffee imported by the industrialized countries
of Europe;

(b) Subsequently the United Kingdom, and more
particularly France, established a system of prefer­
ences and encouraged coffee-growing in their colonies
with a view to replacing their purchases from Latin
America.

283. The same reasoning is valid for bananas.
However, the low cost of Latin American bananas
precludes competition from Africa or Asia. The
opposite is true of Latin American cacao, which
costs more than African cacao, a factor that must be
added to the preferential treatment granted in
Europe.\textsuperscript{20}

284. Lastly, it should be pointed out that the recent
International Coffee Agreement covering the period
1963-1968 may affect the world market conditions
described above, through its system of export quotas,
adjustable every three months, which apply to nearly
all world trade in coffee. While it does not contain
specific provisions relating to prices, it is hoped that
the agreement will help to balance supply and demand
and that it will reduce price fluctuations through its
system of quotas, permanent consultations among the
producers concerned, market studies, and its support
for abolition of existing restrictions (preferential
tariffs, import duties, internal taxes, etc.). The fact
that exporter countries have undertaken to adjust
their output in order to avoid surpluses—in accord­
ance with targets to be set by common consent after
the Agreement has been in force for one year—is
expected to introduce a measure of discipline into the
coffee trade. So far it has not had any effect on market
prices other than to stabilize them at the very low
levels they had already reached.

(2) \textit{Cotton and sugar}

285. Cotton and sugar, unlike the three commodi­
ties mentioned above, are exported by both developed
and developing countries and, while chiefly of concern
to tropical areas, present problems similar to those of
temperate-zone agricultural commodities.

286. Cotton production in the United States,
favoured by a policy of subsidies, far exceeds domestic
consumption and this leads to the accumulation of
surpluses which find their way into the international
market, partly through exports effected under the
provisions of Public Law 480. These exports, stimu­
lated by subsidies estimated at about 27 per cent of
their internal price, amounted between July 1954 and
30 June 1962 to 7.1 million bales for a value of nearly
$1,050 million. Moreover, these sales were not con­
fined to developing countries—a policy for which
there would at least have been some justification. On
the contrary, many of the agreements were of benefit
to countries with a relatively high income. It is esti­
mated that 41 per cent of the cotton exported during
the above-mentioned period under Public Law 480
went to countries like France, Italy, Finland and
Austria, as well as to Poland and Spain.

287. The United Kingdom and the EEC countries
are not major cotton producers and their cotton
imports are not subject to restrictions or discrimina­tory
measures worth mentioning. As a result, Latin Ame­
rica has been able, over the long term, to increase its
share of the world cotton market in spite of the
problem it faces in competing with the United States,
which subsidizes its exports and effects it sales under
non-commercial financial arrangements.\textsuperscript{21}

288. Cotton can be grown economically in areas
with a cooler climate than is required for coffee, cacao
or bananas. However, the developed countries have
much less land suitable for cotton-growing than for
the production of wheat and even of maize. Thus, the
United States is the only cotton supplier among the
developed countries, and even there the area suitable
for cotton-growing is much smaller than the land
available for producing temperate-zone commodities.
The absence of restrictions and discriminatory
measures in the world cotton trade and the relative
lack of land suitable for cotton-growing in the
developed countries are the main reasons for the
increase in the production and export of cotton from
Latin America in spite of United States cotton policy.

289. The position with respect to sugar is quite
different. As United States production is unable to
meet the requirements of consumer demand, the
difference is met through imports regulated by the
quota system, which is designed to facilitate purchases
at prices above those prevailing on the world market
so as to reflect the higher production costs in the
United States. Sugar is thus the only major commodity
exported by Latin America to receive preferential
treatment in a developed country.

290. The European Economic Community only
occasionally imports sugar, its imports being designed
to supplement inadequate supplies due to poor crops,
as was recently the case. The United Kingdom, on the
other hand, is a major importer but grants preferential

\textsuperscript{19} Output dropped 6.4 per cent between 1959/60 and 1961/62,
according to FAO \textit{(Production Yearbook 1962)}, IA-ECOSOC
\textit{(Economic and Social Survey of Latin America, 1962)} estimates the
reduction at 25.1 per cent between 1959/60 and 1962/63.\textsuperscript{22} In spite of
the discrepancy, both sources agree that output has declined in absolute
terms.

\textsuperscript{20} For confirmation, see "The achievement of co-ordination in
Latin American trade policy: relations with the European Economic
Santiago, October 1962, particularly para. 84 and table 4 concerning
coffee.

\textsuperscript{21} Latin American exports increased from an annual average of
1.7 million bales in 1934-1938 to 3.8 million bales in 1961-1962,
amounting respectively to 12.9 per cent and 25.1 per cent of total
world cotton exports.
treatment to the Commonwealth through purchase contracts specifying volume and prices, which vary in accordance with those prevailing on the world market.

291. Several factors have contributed to the change in sugar marketing conditions during the past few years. In the first place, climatic conditions were unfavourable for beet production in western Europe and in the countries with centrally-planned economies, a deficit occurring in areas which are normally self-sufficient or even exporters. For the 1962/63 crop year, the sharp drop in Cuba's output increased the world sugar deficit. Secondly, the suspension of United States sugar purchases from Cuba led to an intensification of demand on the free market. These factors did not all arise at the same time. Loss of the beet crop, for instance, did not take place until trade between the United States and Cuba had been interrupted. In fact, suspension of United States purchases of Cuban sugar was only partial up to 1960 and did not become total until after that date; the drop in European production, on the other hand, occurred during the past two seasons (1961/62 and 1962/63). However, sugar prices did not reach a peak until the end of May 1963, because the production shortage had been covered from existing stocks. Inventories at the beginning of the 1959/60 season in the major exporting countries amounted to 3.3 million short tons of centrifugal sugar, compared with only 1.6 million tons during the same period in 1962/63.

292. All these factors were responsible for an unusual increase in the price of sugar, which reached its peak in the middle of 1963. In 1960 the price of raw sugar on the world free market was 3.14 cents per pound, rising to an average of 7.66 cents per pound in the period January-June 1963, with a peak of over 11 cents at the end of May.

293. The redistribution of United States import quotas stimulated production in several Latin American countries. Latin America (excluding Cuba) produced 7.8 million tons of sugar in 1958 and 8.7 million tons in 1962. However, future growth may be limited by the substantial investment required for new sugar refineries and the fact that current conditions may not last.

294. A special international agreement also exists for sugar. In force since 1958, the International Sugar Agreement never succeeded in covering even half the world sugar market. While the agreement was to remain in effect until 1963, its provisions were in fact suspended upon termination of existing trade agreements between Cuba and the United States. The sugar agreement, like the coffee agreement, concerned export quotas, and included clauses on the regulation of production, limitations on the size of domestic stocks, etc. The size of the export quotas was adjustable on the basis of price fluctuations within a specific range and the quotas were to be abolished whenever the price exceeded 4 cents per pound. At present the international price is over 10 cents a pound, and the two major importers—the United States and the United Kingdom—whose combined imports constitute more than half the world total have preferential import arrangements outside the agreement.

(3) *Temperate-zone agricultural commodities*

295. In 1961 Latin American exports of five temperate-zone agricultural commodities—meat, maize, wheat, linseed oil and wool—totalled slightly over $750 million. While this figure then represented only 8.7 per cent of Latin America's total exports, the commodities concerned play a very important part in the foreign trade of some Latin American countries, representing 60 per cent of Argentina's total exports and 80 per cent of Uruguay's.

296. Of the commodities mentioned, wheat has been in the most difficult position as a result of the self-sufficiency policy of the developed countries and their growing role—particularly in the case of the United States—as exporters of wheat under non-commercial price and financing conditions. While the United States share of world trade in wheat rose from 7.3 per cent to 44.9 per cent between 1934-38 and 1961-62, Latin America's share during the same period dropped from 19.9 per cent to 5.4 per cent.

297. For the financial year 1960-61, United States sales of wheat—or more accurately of wheat and wheat flour expressed in terms of wheat—under government programmes amounted to 12.3 million tons, or 70.6 per cent of the country's total wheat exports. Moreover, as in the case of cotton, sales under non-commercial conditions were not confined to developing countries, a large share (slightly over one-third) going to developed countries.

298. The policy of price subsidies for local producers in developed areas other than the United States has led to chaos on the world wheat market. France, where the producer's price is 19 per cent higher than the world market figure, exported 1.3 million tons in 1961-62. The Federal Republic of Germany, where prices are 44 per cent higher than the price of Argentine wheat delivered to a European port, exported 1 million tons of wheat flour, including sales to Bolivia and Paraguay, thanks to large subsidies.

299. The United Kingdom imports most of its wheat from the Commonwealth and Latin America's share of this market is less than 5 per cent of total imports, virtually the same as its share of the EEC market (4.5 per cent).

300. The provisions of the International Wheat Agreement in force for the period 1962-65 have not been effective enough to cope with situations as complicated as those just mentioned. If the Agreement is to cover most of the trade in wheat, its operative provisions concerning rights and obligations will have to be sacrificed, particularly those relating to purchases of specific quantities at pre-established minimum prices. At the same time, the importance of the Agreement has been gradually reduced by the predominant position of the two chief exporters—the United States and Canada—and the pressure of surpluses which tend to increase transactions under special conditions as regards price and currency of payment.

301. The situation is less serious with respect to maize, although some problems still subsist. The tendency of the developed countries to become self-sufficient in meat has increased their imported fodder
requirements and thereby broadened the market for maize. Thus, Argentina substantially increased its maize exports during the past five years and in 1961 exported 3 million tons. However, this figure is still well below the 5 million tons it exported annually in 1937-39. The relative position of Latin America as a whole has also worsened considerably, its share of the world market having dropped from 55 per cent to 25 per cent between 1937-39 and 1960, while the United States increased its share from 17.1 per cent to 49 per cent during the same period. The United Kingdom imports barely 3 per cent of its maize from Latin America, its chief supplier being the United States, which is also the main source of supply to the EEC. Latin America's share of the EEC market is slightly over 28 per cent. Moreover, price variations are narrower than for wheat although the level will probably remain relatively low in order to compete with other fodder used for cattle feed in the developed countries.

302. Latin America is in a somewhat better position on the world meat market. Argentina continues to be the world's main supplier of beef followed by Australia and, more recently, by France. In 1961 France exported over 100,000 tons of beef, which is one-third of Latin America's total exports. Since the producer's price of meat in France is twice as high as in New Zealand and very much higher than the price of Argentine beef delivered on the London market, the situation can be explained only by the policy of self-sufficiency practised within the EEC to the detriment of the developing countries and their prospects for a larger share of the export trade.

303. The geographical distribution of the meat trade is quite different from that of trade in tropical commodities. Latin America's share in the EEC countries is about 17 per cent, and it continues to provide 28 per cent of the United Kingdom's imports and less than 15 per cent of the meat imported by the United States (mainly from Mexico and Nicaragua). Latin America's small share of the United States market is due not to protectionist measures (the United States having increased its imports from Australia and New Zealand), but to health restrictions against foot-and-mouth disease, which affect more particularly exports from Argentina, Uruguay and Paraguay.

304. The restrictions placed in the United States on meat from Argentina, Uruguay and Paraguay may eventually be lifted, particularly in view of the successful results achieved in the campaign to eradicate foot-and-mouth disease. Latin America's share of the United States market may then be expected to increase. On the other hand, the position is much more serious with respect to the EEC countries. The draft regulation on beef includes points which can only arouse misgivings, particularly in view of the intention, sometimes expressed, that the EEC should in time become virtually self-sufficient. Moreover, the direct and indirect subsidies granted to meat production and particularly the restrictions placed on imports have helped to keep world meat prices low. Moreover, the uncertainty created by sporadic access to this market, and at unsatisfactory prices, discourages the Latin American countries from adopting a vigorous production policy designed to increase the quantity of meat available for export.

305. Lastly, the two remaining commodities—wool and linseed oil—are subject to much fewer restrictions since they are industrial raw materials and, as such, are granted generally favourable treatment under the tariff policy of the developed countries. While in 1961 wool represented only 2.9 per cent of Latin America's total exports, it was an important export item for Argentina (15 per cent of its total) and particularly for Uruguay (63 per cent). There is no danger of the EEC countries' attempting to become self-sufficient in wool as they produce only 9 per cent of their requirements. Moreover, man-made fibres have not affected wool's share of total world fibre consumption, which remains at 10 per cent.

306. As a rule, wool may be imported freely into the developed countries. The only restrictions in force are applied by Portugal (import licences, discriminatory measures and additional charges), Denmark (import licences and discriminatory measures) and Spain (import licences, discriminatory measures and additional charges).

(4) Ores and fuels

307. Latin America's exports of petroleum and petroleum products, copper, tin, iron, lead and zinc ore in 1961 totalled about $3,200 million, a value equivalent to 36.7 per cent of the region's total exports. In the same year, petroleum and petroleum products alone accounted for over one-fourth of total Latin American exports, at a value of $2,300 million.

308. As a rule, world trade in ores and fuels is not subject to high customs tariffs, and other restrictive or discriminatory measures are far less severe than those levied on agricultural commodities. Sometimes, as in the case of the United States' petroleum and copper imports, tariffs and quotas are imposed in order to protect domestic producers; in others, there is some slight tariff discrimination aimed at according preferential treatment to associate territories. However, the main difficulties in this field stem from factors of a different kind, to some of which brief reference will be made below.

309. One of these is the fact that the most important oilfields in the area are in the hands of foreign enterprises whose similar interests in other areas and connexions with the principal centres of consumption determine the direction in which trade flows. This precludes the less-developed countries from taking an active part in decisions on the marketing of the product concerned. In many cases exports are effected in the form of crude fuel or unrefined ores, thereby limiting the foreign exchange earnings that might be derived from exports at a more advanced stage of processing. This applies, for example, to copper and tin, the refineries of which are in the United States and Europe, and to some extent to Venezuelan petroleum.

310. The foregoing is reflected in the varying share of different under-developed areas in the markets of certain industrialized countries. In 1961, for instance, the United States imported half its copper from Latin America, while Belgium's imports came from the
Congo (Leopoldville); 60 per cent of the United Kingdom's lead imports were from Australia, New Zealand and South Africa, and only 3 per cent from Latin America, whereas Italy imported 45 per cent of its lead from Latin America; 12.4 per cent of France's iron ore imports were from Latin America and 30 per cent from Africa (mainly Algeria, Morocco and Tunisia); 40 per cent of Italy's imports came from Latin America and 20 per cent from Africa; the United Kingdom imported 13.3 per cent of its petroleum and petroleum products from Latin America and 3.6 per cent from Africa, while France's imports were in the proportion of 6.6 per cent from Latin America and 32.8 per cent from Africa (chiefly the Sahara).

311. The Organization of Petroleum Exporting Countries (OPEC) was set up in September 1960 with a view to improving marketing conditions and increasing income from petroleum. The original members were Iran, Iraq, Saudi Arabia, Kuwait and Venezuela, with the subsequent incorporation of Indonesia, Libya and Qatar, and the participation as observers of Nigeria, Algeria, Trinidad, and Colombia. In article 2 of the Agreement the Member Governments decided the following:

312. That the Oil Companies should be required to maintain their prices steady and free from all unnecessary fluctuations; that the Member Countries should endeavour, by all means available to them, to restore present prices to the levels prevailing before the reductions; to ensure that if any new circumstances arise which in the opinion of the Oil Companies necessitate price modifications, the said Companies should enter into consultation with the Member or Members affected in order fully to explain the circumstances.

313. Article 3 of the Agreement adds that the "Members shall study and formulate a system to ensure the stabilization of prices by, among other means, the regulation of production, with due regard to the interests of the producing and the consuming nations and to the necessity of securing a steady income to the producing countries, an efficient, economic and regular supply of this source of energy to consuming nations, and a fair return on their capital to those investing in the petroleum industry."

314. It is common knowledge that Latin America's petroleum exports constitute one of the main sources of foreign exchange. The United States is the chief buyer of Latin American petroleum, and imposes various types of restrictions designed to protect the domestic petroleum and coal industry.

315. As far back as 1932 a tax of 21 cents per barrel was levied on crude petroleum imports, which was reduced in 1952 to $1 and 10 cents per barrel according to the quality of petroleum. The United States reserved the right at the time to establish quantitative restrictions on imports of products connected with national defence.

316. Voluntary quantitative restrictions of up to 7 per cent also began to be imposed in 1952 on petroleum imports other than from Canada and Venezuela.

317. In 1959 the quantitative restrictions became compulsory and covered both petroleum and petroleum products, as well as affecting imports from all countries except Mexico and Canada, thus discriminating against Venezuela. Import quotas are allocated to United States refineries in proportion to their processing capacity. However, when its geographical location prevents a refinery from making use of its import quotas, it may transfer its share to another coastal refinery, and through this transfer obtains a benefit which, in fact, represents an import duty on petroleum and, in turn, amounts to a subsidy for those refineries which only process United States crude petroleum.

318. Further aspect of the restrictions concerns import quotas of fuel oil, a product competing with coal. Fuel oil does not seem to be affected by national defence problems, as in the case of crude petroleum and other petroleum products, but here protection of the United States coal industry seems to have been the prevailing concern.

319. All these restrictions are aimed not only at maintaining in the United States a proportion of domestic production consistent with national defence needs, but also at affording protection for local petroleum production whose cost is usually higher than in Venezuela.

320. The position of the EEC countries is still undefined and they are engaged in discussing their future policy, which will not be difficult to enforce owing to the fact that several of them import petroleum through government agencies. Although the EEC countries produce very little petroleum themselves, their output of coal is substantial and production costs in general are higher than in the United States. Measures affecting the interests of the Latin American countries may therefore be expected.

321. Copper imports are not subject to quantitative restrictions in the developed countries. Furthermore, unprocessed copper has no import duties levied on it in the Federal Republic of Germany and the Benelux countries; it is, however, subject to a special tariff in the United States, equivalent to about 11.2 per cent 

ad valorem; copper concentrates are also subject to special customs duties which in 

ad valorem terms are equal to approximately 5.7 per cent in the United Kingdom, while Italy and France impose charges of up to 12 per cent, which in some cases represent preferential treatment in favour of their overseas associates. On the other hand, there are heavy restrictions and severe discrimination in the case of processed copper products.

322. Neither is iron ore—an increasingly important Latin American export—subject to tariff or quantitative restrictions. Its position has been maintained at constant levels or has registered an upward trend since 1952, but in 1962 some reductions occurred which might be interpreted as symptoms of market saturation.

323. Although unrefined tin—a major Bolivian export—is also exempt from import duties, there are heavy restrictions and discrimination in respect of the more highly processed product. Its prices on the world
market have registered an upward movement in the past few years, as a result of reduced supplies both in Bolivia and Indonesia, but this trend is likely to be curbed by competition in tin substitutes such as aluminium, which may prove more suitable at certain price levels. There is an International Tin Agreement in force from 1961-66 whose primary purpose is to provide a buffer stock to help to stabilize the world price by means of purchases of tin when the price falls below a certain level and its sale when a given ceiling price is exceeded. As a result of steadily rising prices which, for the second time in twenty-eight months, exceeded the ceiling contemplated in the agreement, the latter became inoperative since tin stocks were exhausted. Moreover, the United States—which is the main importer with strategic reserves amounting to over 350,000 tons, i.e., the equivalent of two years' world production—is not a party to the Agreement.

D. OBSTACLES AND RESTRICTIONS IN RESPECT OF EXPORTS OF MANUFACTURES

324. The foregoing sections show clearly that the expansion of Latin America's traditional exports has been limited by a great many factors, related mainly to restrictions and discriminatory treatment applied by the industrialized countries. The persistence of such obstacles and their severe repercussions on Latin America's prospects of accelerating its development would justify an attempt further to diversify exports from the region, primarily through exports of manufactures and semi-manufactures. The fact that this has not happened is largely due to a combination of adverse factors which have failed to provide sufficient encouragement for such an attempt or to prevent the attainment of satisfactory results.

325. Some of the above-mentioned obstacles are similar to those analysed in connexion with traditional export commodities. Others are more concerned with internal problems and difficulties in the region, which are easily explicable since there is not only a question of expanding an existing trade flow but of embarking on new export lines. It would be well, therefore, to make a fairly thorough examination of the nature and magnitude of the obstacles in question, distinguishing between those deriving from restrictive and discriminatory practices in force in the industrial centres, those deriving from the region's industrialization process, and those concerned with transport, distribution and marketing problems.

(1) Restrictive and discriminatory practices in world trade in manufactures

326. Any effort on the part of the under-developed countries to initiate and expand exports of manufactures and semi-manufactures to the major developed areas faces a series of obstacles and artificial barriers of varying importance and of different patterns and incidence according to the country concerned. The following are some of the main obstacles of that kind:

(a) Tariff levels

327. A common feature of tariffs is the progression in rates of duty according to the degree of processing which the products in question have undergone. Most raw materials are imported duty-free or at nominal tariff rates not exceeding 5 per cent, save in exceptional cases when the duty is fiscal in nature (e.g., tobacco) when certain measure of protection is given to domestic agriculture or mining, or when the primary goods imported are able to carry high consumption taxes without affecting the manufacturing industries that use such goods. On the other hand, a higher tariff level usually exists for partially manufactured goods, while for final manufactures or end goods the rates become progressively higher, reaching levels that are often virtually prohibitive for exports even for producers located in countries where industry has achieved an advanced stage of efficiency.

328. In the leather industry, for example, hides and skins are imported practically duty-free in most countries (in the United States the rate payable on cow hides is 4 per cent; in the European Economic Community countries imports are duty-free and in the United Kingdom they are also duty-free when not cured. Bovine cattle leather is dutiable at an average rate of 11 per cent in the United States, 10 per cent under the EEC common external tariff, and 10 or 15 per cent in the United Kingdom. For travel goods of leather the rates rise to 21 per cent (weighted average) in the United States, 19 per cent in the EEC and as much as 30 per cent in the United Kingdom. For leather clothing, the United States rate runs from 25 to 40 per cent and over (with a weighted average of 28), while for footwear a rather similar tariff structure applies. Another example is that of wool, which in the United States and the EEC countries is subject to a tariff of up to 20 per cent, depending upon its degree of processing. Meat extract is subject to a tariff of from 3 to 30 per cent, depending upon the size of the container.

329. In the case of metals, most countries allow ores to be imported duty-free, but impose duties which fluctuate between 7 and 15 per cent for semi-processed forms such as ingots, bars, blooms, etc. If processing is carried a stage further (e.g., plate, sheet, strip or wire), the duties increase slightly, while for tubes, pipes, fittings and other finished forms the duties in countries such as the United States, the United Kingdom and Japan are about 20 per cent or more. When converted into more complex products such as internal combustion engines, vehicles, electrical appliances and equipment, steel furniture, etc., still higher duties are the rule (frequently fluctuating between 25 and 35 per cent ad valorem).

330. Table 51 illustrates the progressive nature of tariffs and at the same time indicates the absolute levels of duty which apply in the developed countries to three categories of non-food products, excluding petroleum and petroleum products.

331. It will be observed that, except in the Scandinavian countries, the average rate of duty for finished products was from 17 to 21 per cent, as compared with 0 to 4 per cent for unprocessed materials and 11 to 16 per cent for intermediate products destined for further transformation prior to final use. If less industrialized countries outside Europe are considered, still higher tariff levels for manufactured goods are
### Table 51

**Tariff levels in developed countries for non-food commodities (most-favoured-nation régime)**

(Percentages ad valorem or equivalent: unweighted averages)

<table>
<thead>
<tr>
<th>Item or group</th>
<th>United States</th>
<th>EEC</th>
<th>United Kingdom</th>
<th>Austria</th>
<th>Denmark</th>
<th>Norway</th>
<th>Sweden</th>
<th>Switzerland</th>
<th>Canada</th>
<th>Japan</th>
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</thead>
<tbody>
<tr>
<td><strong>A. Crude materials</strong></td>
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<td></td>
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<td></td>
<td></td>
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<td><strong>C. Final products</strong></td>
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<td>19</td>
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<td>18</td>
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<td>8</td>
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<td>21</td>
<td>8</td>
<td>13</td>
<td>9</td>
<td>9</td>
<td>17</td>
<td>19</td>
</tr>
</tbody>
</table>

**Summary**

| | Crude materials | 2 | 0 | 4 | 2 | 0 | 0 | 0 | 2 | 0 |
| | Intermediate products | 16 | 11 | 13 | 11 | 4 | 8 | 5 | 8 | 12 |
| | Final products | 21 | 17 | 21 | 21 | 8 | 13 | 9 | 9 | 17 |


---

**found. In Australia and New Zealand, for instance, tariffs of 45 to 55 per cent apply to most products competing with local industry; while in the developing areas of Asia (as well as in Latin America itself) the combined level of duties and surcharges on the less complex forms of manufacture present an insurmountable obstacle for the producer wishing to enter the market.**

**332. The existence of preferential trading areas such as those of the British Commonwealth and the European Common Market further handicap the Latin American exporter in the overseas market.**

(b) **Quantitative restrictions**

333. While the post-war years have witnessed a considerable reduction in quantitative restrictions on imports, nearly all developed countries maintain a few
measures of this kind for certain manufactured commodities imported from other areas. In some cases, the situation is justified on balance-of-payments grounds (e.g., in Denmark, Japan, New Zealand and South Africa). In others, it is generally claimed that unrestricted entry would disrupt the domestic market and damage local industry. The number of products involved is not large, but they provide a clear illustration of the persistence of measures which do nothing towards effectively liberalizing trade and give potential exporters the impression that there are no sufficiently sound bases for a sustained and serious effort to diversify exports.

334. Symptomatic of a reluctance to permit liberalized trade is the existence of saving clauses in the trade agreements of industrialized countries, the recognition of danger points beyond which excess imports would not be permitted, and the imposition in recent years of so-called voluntary agreements whose prime objective is to protect local industry under the pretence of orderly market regulation. For the less-developed countries, where bargaining power is weak and alternative markets hard to achieve, the acceptance of voluntary restrictions on recently initiated and as yet limited trade flows has been the only course open to them. An example of this is the recent long-term agreement for trade in cotton textiles, which affects Colombia amongst other under-developed countries, since it limits the volume of exports that can be made to developed countries.

(c) State trading

335. A problem of potential rather than present importance is the absolute power of State enterprises in certain countries to determine the source of supplies, thus assuming a monopsonistic position which might distort the usual flow of trade. In the market-economy countries, however, State trading applies in only a limited number of cases, mostly related to purchases of tobacco and vegetable oils. The principle involved is nevertheless significant in that the products concerned are imported almost entirely in an unprocessed or semi-processed state, the possibility of expanding Latin American exports of the manufactured product (e.g., cigarettes) being correspondingly remote.

336. The situation of State trading as carried out by countries with centrally-planned economies is more complicated, involving problems such as access to markets, stability and continuity of trade, price and payment systems, and the role which the items concerned play in the over-all development plan of the importing country. These problems are dealt with in a separate part of this study.

(d) Dumping practices and subsidies

337. Latin America’s exports of manufactures and semi-manufactures to overseas markets are not dependent only on the practices followed by the importing country, but also on those of third countries. It is true that, in some instances, the advantages of lower production and distribution costs enables them to undersell Latin America on equal terms (for example, the textile industries of Hong Kong, India and Pakistan). But, in others, some countries can compete to better advantage through the adoption of differential prices for export products when the producers concerned wish to obtain, or maintain a foothold in the overseas market. A variant of this policy is sometimes applied to industries where a large part of the costs are fixed, marginal costs being much lower than average costs per unit of production.

338. Anti-dumping legislation exists in few countries and its range of action is limited. Where no domestic industry is prejudiced, the importing country normally shows no interest in curtailing dumping, even in the case of claims by affected third countries. In recent years no country, either in accordance with the GATT provisions or its own legislation, has taken steps to prevent or sanction these practices.

(e) Other restrictive or discriminatory trade practices

339. Besides those mentioned, a number of minor restrictions exist which, if not of significance for trade from a global viewpoint, affect the marketing of individual items. Mixing regulations, although contrary to article III of GATT, apply to the manufacture of certain commodities in certain countries (e.g., tobacco, oils, margarine, soaps), and the requirement that a given percentage should be of domestic origin undoubtedly influences the flow of trade in the items concerned. Quarantine, sanitary and marking regulations have also at times been applied in a discriminatory way to restrict the entry of products from a particular country of origin; while the point has more relevance in the case of foodstuffs (notably meat), in some cases the items concerned are processed goods (e.g., butter and cheese), which are of interest to manufacturers in the Latin American region.

340. An allied problem arises when in certain instances, anti-dumping legislation is unfairly invoked to prevent exports from under-developed countries from competing in the local markets of industrialized countries. In many cases, Latin American exports (e.g., Venezuelan cement) have been unable to obtain access to the market of an industrialized country owing to the method used by the would-be importing country for calculating prices in the country of origin. Although most requests for the establishment of anti-dumping duties in countries like the United States have been rejected, the danger of such action (and the risk of having to pay the corresponding duties or to ship the goods back) has sufficed to curb the flow of trade.

341. Unnecessary or excessive fees and documentary requirements also restrain trade in both the industrialized and the developing countries; but their effect is general rather than discriminatory in nature. Similar remarks apply to internal taxes and other charges which, although significant in discouraging the consumption of certain commodities (especially where a graduated tax structure imposes varying rates on different items), create a more serious problem for non-manufactured goods (coffee, tobacco, tea, etc.) than for manufactures.
(2) Some characteristics of Latin America’s industrialization process

342. The combination of factors referred to in the preceding sections has in fact been sufficiently powerful to exert a decisive influence on certain patterns of Latin America’s industrial development process. These, in turn, have further weakened its chances of exporting manufactured goods.

343. The main question is that, under the pressure of balance-of-payments problems and other development needs, industry was forced to turn first and foremost to import substitution. The purpose of industrial undertakings was to alleviate pressing problems and they could consequently expect that the necessary incentives and protection measures would be adopted. Although in the long run an equally firm policy of incentives could have promoted the development of export industries as well, these could not be expected to produce results quickly enough to solve the more immediate problems. To a certain extent, even external interests contributed to that pattern. For example, new industrial enterprises were frequently sponsored by foreign firms anxious to maintain their position in the local market through the establishment of local subsidiaries, thus also benefiting from the general climate of protection that was being created.

344. In short, to export was not an objective in the early stages of Latin America’s industrialization. In view of the conditions then obtaining and the absence of development plans, perhaps it could not have been otherwise. Be that as it may, the important thing now is not so much to assess the merits or shortcomings of that industrialization policy, but to point out that it notably impaired the capacity of Latin American industry to compete in external markets and that its effects will still be felt in the future.

345. High tariff barriers have often precluded a reasonable amount of competition that would gradually lead to improved organization of production, greater efficiency and a higher level of productivity. Nor has the establishment of proper systems of quality control been considered essential; this has proved to be a further obstacle to participation in markets organized on stricter and more efficient lines. Similarly, protectionism and limited competition have fostered relatively high gross profits, favoured also by the shortage of capital which is a typical feature of the developing economies.

346. These factors have, of course, led to relatively high manufacturing costs and prices, to which the other factors mentioned briefly below have also contributed:

(a) Scales of production

347. In many cases manufacturing industry, designed exclusively to supply domestic markets which are usually very small because of the size of the population and its low income levels, has chosen techniques which do not allow it to derive the fullest possible advantage from economies of scale. In others, where the choice of techniques is less flexible, market limitations have made it necessary to maintain considerable unused capacity, with the consequent repercussions deriving from high capital costs.

(b) Availability of credit and low interest rates

348. The credit restrictions prevailing in general in the Latin American economies are well known, as are also the rather high interest rates applied. Moreover, the traditional patterns of international financial co-operation have not favoured the channelling of external resources into manufacturing activities. In addition, capital goods are more expensive in developing countries, and investment requirements for certain installations are correspondingly greater.

(c) Raw materials and fuels

349. While Latin America derives an initial advantage from its plentiful supply of raw materials, various factors often reduce this advantage when it comes to developing industries for the processing of these raw materials for export. Freight costs are one such factor since it usually costs much less to ship raw materials for processing in the industrialized countries than to send the finished product. In addition many firms in industrialized countries, by reason of their financial associations, are in a position to buy, at particularly favourable prices, raw materials of a type which Latin America too must occasionally import. Lastly, while raw materials and fuels may be plentiful in Latin America, the deposits are often located far from the centres of production, and as long as transport facilities are inadequate this detracts considerably from the advantages they offer.

(d) Skilled labour and technical “know-how”

350. The low standard of literacy in some Latin American countries, the lack of previous industrial experience and the shortage of technical training facilities are some of the factors that have offset the advantages of plentiful labour, which is a feature of the Latin American countries. The same applies to the technical knowledge required at the level of professional entrepreneurs and production organizers, which has often been conducive to the passive adoption of methods and techniques designed for very different conditions prevailing in the large industrialized centres (frequently against payment of royalties or patent rights, the engagement of the services of firms of consultants and the recruitment of key technicians and administrative personnel overseas), without adapting these techniques to the peculiar characteristics of the Latin American economies.

351. A series of internal factors thus arise which, added to those mentioned in connexion with the import policy of industrialized countries and other transport and marketing problems, have in the past constituted a serious obstacle to the development of a substantial flow of manufactures from Latin America. There can be no question of establishing an order of priority among all these factors; the efforts that can be made in the areas that depend on decisions by the Latin Americans themselves will prove sterile unless the external factors referred to are modified. In turn, the mere removal of impediments to world imports of manufactures will only create opportunities that cannot really be taken advantage of until major
changes are made in Latin America's traditional industrialization policy.

(3) Transport, distribution and marketing problems

352. Apart from the restrictive and discriminatory trade practices still being applied by the industrialized countries to trade in manufactured products, and the problems of a predominantly internal nature which have limited the power of the Latin American economies to diversify exports, other difficulties arise which are mainly connected with the transport, distribution and marketing of manufactured goods.

353. Some of the salient problems in this respect are set forth below.

(a) Inland transport and port facilities

354. In some Latin American countries, the main centres of production are located at points not directly connected with the lines of communication to overseas markets (Bogota, Cordoba, Mexico City, etc.). The same problem exists in industrialized countries such as the United States and Canada, but in Latin America it is aggravated by the lack of good inland transport facilities. The inadequacy of these facilities is reflected in high costs, irregular deliveries and difficulties in co-ordinating production with export schedules.

355. Port facilities are equally deficient. In many countries handling arrangements are inadequate, and the risk of damage (including that arising from unsatisfactory warehousing conditions) is considerable. Delays in the shipment of goods and the long stop-over of ships in Latin American ports are other factors that raise freight charges on incoming and outgoing cargoes. It has been estimated that approximately half the total freight costs in Latin America consist of port expenses (including harbour dues, wharfage, loading and unloading and crew expenses while the ship is in dock).

356. Then, too, unprocessed commodities (especially ores) can often be shipped at low bulk cargo rates, whereas the small amounts of manufactured goods exported by Latin America are regarded as general cargo at the correspondingly higher freight rate (often calculated on an ad valorem basis).

357. Finally, while there are regular air and shipping services between Latin America and the United States or Europe, those to other areas (eastern Europe, Indonesia, Oceania, the Philippines, certain countries in Africa and Asia, etc.) are infrequent or non-existent.

(b) Financing of exports

358. The serious shortage and high cost of all forms of credit in Latin America (whether short, medium or long-term), coupled with the lack of an adequate system of insurance against the risk involved in exporting on credit, are urgent problems that severely hamper the development of exports of manufactured goods from Latin America. Those problems are intensified by the competitive nature of the credit schemes open to exporters and the preference of consumers for the source of supply that offers the most advantageous terms of payment.

359. In the more advanced countries, the financing facilities available to exporters increased considerably after the war; the onus of financing used to be the responsibility of the purchaser, but today it is generally laid upon the supplier of the merchandise. In many countries, the export credit and credit insurance schemes are State operated. In others, the State acts as sponsor, providing a large part of the operating capital but leaving the administrative aspects in the hands of private or semi-public bodies. In certain cases, the schemes apply to the transaction from shipment to delivery, while in others, pre-financing (coverage of the direct production cost) is included, and in yet another category post-delivery financing (including sales expenses, stock maintenance, post-sales services and research into consumer requirements) is covered as well. In addition, insurance against commercial, political and economic risks and catastrophes is available for certain types of commodities.

360. No such schemes existed in Latin America until recently. Moreover, although short-term funds are available from normal banking sources, the interest rates of 18 to 20 per cent or even more are far beyond those paid by overseas competitors (8 to 10 per cent) thereby handicapping the Latin American exporter. The recent measures taken by the Inter-American Development Bank to finance certain Latin American exports are confined to intra-regional trade and are not currently applicable to exports to countries outside Latin America.

(c) Market discrimination

361. A further obstacle is the discriminatory purchasing system created through the implicit reservation of specific markets for producers in specific countries. In Latin America, for instance, many firms are subsidiaries or associates of United States or European firms, and although they are usually granted complete autonomy for local operations in the particular Latin American country concerned, their operations in other parts of the world are controlled directly or indirectly. Direct control may take the form of a specific agreement not to compete in an area where the parent company or another subsidiary is operating. In other cases, the distribution arrangements are of an indirect nature, arising out of unwritten agreements between associated manufacturers to respect their particular spheres of action. At times, the arrangements between the parent company and the subsidiary are more binding, the former providing the capital, the technical "know-how" and, if necessary, the managerial staff and even the skilled labour. In return, the subsidiary is assured of a market for its products, but is tied to a system that prevents it from selling in other countries and from carrying its processing beyond a given stage without the approval of the parent company (as in the case of copper, tin, iron ore, and to a certain extent, petroleum).

(d) Other marketing problems

362. Additional problems facing the Latin American exporter of manufactured goods who is anxious
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<td>Latin America: Main components of trade in invisibles, 1961</td>
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Source: Summary based on the International Monetary Fund study entitled
International transactions in services in the balance of payments of under-developed
countries, revised and expanded version, 17 September 1963.

22 These cover a fairly heterogeneous combination of assets and liabilities, mainly disbursements and receipts in respect of vessels chartered by Latin American countries, sea and air travel, and miscellaneous expenditure in ports and airports for ships and planes, particularly for fuel and other supplies, loading, unloading, harbour dues, and the revision and maintenance of ships and airplanes.
charges remain steady while export prices drop. It should also be pointed out that although total freight charges in respect of Latin America's world trade amounted to $81,000 million in 1961, Latin American shipping companies received only $207 million—11 per cent of the total—in freight charges. Two main factors will determine how far these conditions in Latin America can improve. One is a larger and better merchant marine including better harbour facilities. The other is the abolition, on the part of the major shipping powers, of certain discriminatory practices and attitudes hampering a reasonable and equitable development of Latin America's merchant fleets.

372. The merchant fleets of ten Latin American countries—the nine countries of South America (excluding Bolivia) and Mexico—now consist of 784 vessels with a gross tonnage of 3.4 million tons and a dead weight of 4.7 million tons, which amount to barely 2.4 per cent of the world total. This percentage is remarkably low, considering that the volume of these countries' maritime trade is more than 21 per cent of the world total and has tended to decline in the last few years (in 1949 it stood at 2.6 per cent).

373. Thus, Latin America depends on a great extent on foreign vessels for its export and import traffic, since its own ships carry 14.8 million metric tons, i.e., only 6 per cent of the area's entire foreign trade.

374. This explains why most of the Latin American countries have taken a number of steps to develop and protect their merchant fleets, particularly since the Second World War when they were seriously handicapped by the dearth of national merchant ships and the shortage of foreign vessels to carry their traffic. The measures adopted on a national scale have been supplemented by agreements reached at international meetings.24

375. Such aims naturally have to confront the obstacles inherent in the Latin American countries' limited powers of investment and the comparative importance likely to be attached to investment in this field as against other economic development requirements. Moreover, the incentives for an expansion of the region's merchant fleets and even for a more intensive use of available transport capacity are robbed of much of their force by unfavourable attitudes and policies on the part of the big sea powers.

376. In fact, every time a Latin American country has made legal or administrative provision for its merchant fleet to take a more active part in its import and export trade, it has met with opposition from the traditional sea powers in the form of complaints through diplomatic channels and, in some cases, by making the granting of economic aid conditional upon the waiving of the principle of reserving cargo rights.

377. The traditional maritime powers also resort to direct and indirect preferential measures to help their own merchant fleets, thus making it difficult for Latin American shipping to take a more active part in transporting the region's exports and imports. For instance, France, Italy and the United States pay construction and operating subsidies to their shipowners to enable them to compete abroad; the Federal Republic of Germany, Greece, Italy, Japan, Sweden, the United Kingdom and the United States give them a number of tax benefits; Denmark, France and Japan offer better amortization terms to their shipping than to their land-based industries; and the

24 At the Chapultepec Conference (Mexico, 1945), it was agreed that "the American Republics consider the promotion and development of their merchant fleets and the establishment of adequate transport systems for each country to be a key to their economies", and at the Meeting of Ministers for Finance or Economic Affairs at the fourth extraordinary session of IA-ECOSOC (Rio de Janeiro, 1954) it was stated to be "the policy of the American Republics that their national merchant fleets, composed of vessels flying their flags, should carry a substantial part of their foreign trade". Similarly, the Charter of Punta del Este recognized that "the promotion and co-ordination of transportation and communications systems is an effective way to accelerate the integration process" and that "in order to counteract abusive practices in relation to freight rates and tariffs, it is advisable to encourage the establishment of multinational transport and communications enterprises in the Latin American countries or to find other appropriate solutions". ALALC, for its part, has been engaged since 1961 in working out a definition of regional maritime policy and has set up an Advisory Commission on Transport, which, at its first meeting (June 1963), adopted the preliminary draft of a General Convention on Waterborne Transport based on the Montevideo Treaty, whereby international trade was reserved for ships flying the flags of the Contracting Parties. As agreement could not be reached on some of the principal articles of the Convention—the most important of which concerned multilateral cargo reservation rights—it was decided at ALALC's third round of negotiations (November 1963) to keep the matter open for discussion. The question of a shipping policy for the area is also of interest to the newly-established Latin American Shipowners Association, which was to discuss it at its next general assembly (Montevideo, January 1964).

26 As was the case in Chile during the discussion of Act No. 12041 (Promotion of the Merchant Marine), against which repeated protests were made by the Governments of eight maritime powers amounting to two-thirds of world tonnage. The same occurred when Colombia was considering a decree to protect its merchant fleet on the lines of the Chilean decree, when Brazil in 1959 passed a law favouring its merchant fleet and when Venezuela took steps to protect the State shipping enterprise. This has also happened recently in the case of Uruguay. Since 1957 the Greater Colombia Merchant Fleet has been unable to obtain in the United States the waivers required for cargo covered by Public Law No. 17 of 1934 (Cargo Preference Act). Lastly, the shipping companies of Brazil, Chile and Venezuela that transport goods abroad have had to resort to the expedient of signing freight pool agreements with their European and United States competitors, in order to give them a share of the quota which the law assigns to the ships of the first three countries for the national flag, and thus ensure that they do not block the application of protectionist measures. Such a transfer of transport rights to foreign vessels is, of course, contrary to the spirit of legislation enacted to promote shipping. Thus the scope of the policy of promoting domestic shipping, in support of which these laws were enacted, has been limited by external factors.
Federal Republic of Germany, France, Italy, Japan, the Netherlands, Sweden and the United States grant loans at low rates of interest or pay part of the interest for ships to be built by their own nationals in domestic shipyards.

378. Some sea powers also take steps to protect their own flags in cargo distribution, either through legislation proper or administrative measures requiring shipments by government enterprises or agencies to be carried in domestic ships. Thus, in the United States the Cargo Preference Act of 1954 provides that at least 50 per cent of the quantum of aid cargo or any other cargo financed directly or indirectly by the Government or its agencies shall be carried in American ships. While such cargoes form only a very small share of total United States exports, the developing countries which receive aid from the United States are the ones most affected by the provisions of the Act.

379. The legislation of some of the larger countries also provides for sanctions against countries taking measures that are considered to discriminate against or threaten their interests. An example of this is the United States law of 3 October 1913 which empowers the Government to impose a discriminatory duty of up to 10 per cent of the value of the merchandise imported in foreign vessels, and the Foreign Trade Act of 1961, promulgated by the Federal Republic of Germany, which establishes restrictions on the shipment of goods in vessels owned by countries "impeding the participation, on a competitive basis, of the German merchant fleet". This provision has been applied since 1961 to Brazil and Venezuela, whose own ships and chartered vessels cannot load cargo in the Federal Republic of Germany without a special licence from the Federal Ministry of Transport, "in order to protect the German merchant fleet from discrimination by these countries".

380. Moreover, the Latin American countries are competing for the right to carry their own cargoes not only with the vessels of sea powers that are heavily protected and subsidized by their Governments, but with another group in a highly favourable economic situation, i.e., the vessels that sail under a "flag of convenience". The flags of Liberia and Panama, which are mainly used in this sense, together protect more than 14 million gross tons of shipping, of which 9 million are tankers, i.e., more than three times the total tonnage of the Latin American merchant fleets and six times that of their tankers. The owners of 'craft flying' 'shadow flags' are actually citizens of the traditional maritime nations who hope thereby to evade their tax liabilities and the need to fulfill certain minimum requirements as regards facilities and social security regulations for their crews.

381. Freight Conferences, although useful as a means of stabilizing tariffs and regularizing international services, have not proved an effective instrument for eliminating some of the restrictive harmful practices and irregular procedures that are prejudicing the Latin American countries, which are in an absolute minority in such groups. The thirty-four Conferences that are concerned with the main transport services linking Latin America with the United States and Europe bring together 121 shipping companies, of which only eight are Latin American. Moreover, only at fourteen of these Conferences have some of the regional lines been represented. Among the agreements detrimental to the maritime activities of the Latin American countries, the most harmful are those that divide some traffic among the affiliated European merchant ships, to the exclusion of Latin American vessels, even though they belong to the same conference group. Nevertheless, the stand taken by the Latin American lines at the conferences in which they have taken part has led them to oppose tariff surcharges and higher rates increases which they have felt to be unwarranted and to obtain reductions in the freight rates for certain basic export commodities. For instance, the Greater Colombia Merchant Fleet managed to obtain reduced tariffs for coffee cargoes as soon as it took part in the European and United States conferences, and the Compañía Sudamericana de Vapores secured special rates for the promotion of Chilean products in search of new markets (e.g., steel in Europe), that recently prevented a surcharge from being imposed on freight for Africa. It has also been influential in ensuring that Chile, alone of the South American countries, does not add a surcharge to conference rates.

382. At the present time, the only areas to which the Latin American countries maintain regular shipping services are the United States and western Europe, with which more than two-thirds of their trade is conducted. But sea communications among the Latin American countries themselves are neglected and there is an almost total lack of transport services to the countries with centrally-planned economies—apart from Yugoslavia and Poland—and to such vast developing areas as West Africa. There can be no doubt that this state of affairs is also reducing Latin America's possibilities of expanding and diversifying its export trade.

F. OVER-ALL EVALUATION

383. An over-all evaluation will now be attempted, however general in character, of the effects on Latin America's foreign trade of the complex of factors referred to above. Such an evaluation is essential not only in order to explain past events and trends, but above all to deduce from past experience what can and should be done in the future, both through Latin America's own efforts and through action that would have to be left to the more developed countries.

384. The most important effects of the factors discussed are, of course, the very slow growth rate of Latin American exports in relation to the needs even of a degree of development that leaves much to be desired, and the losses due to unfavourable trends in the terms of trade. These losses are considerable not

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Footnote: 5 The conference between northern Europe, Brazil and the River Plate countries maintains an agreement whereby Danish, Norwegian and Swedish shipowners may not load in west European ports served by conference vessels, and these must, in their turn, refrain from taking cargo aboard in Scandinavian ports. The same arrangement holds good for affiliated Argentine boats which may not load in Scandinavian ports although Scandinavian vessels operate freely in Argentine ports. The European-Magellan and South American Conferences have a similar agreement, according to which Chilean ships are prohibited from taking on cargo in Denmark, Norway or Sweden although no restrictions are applied to ships of those nations in Chilean ports.
only in terms of capacity to import, but also of the total volume of income generated in the region. Both these fundamental effects have been sufficiently dealt with in the section on Latin America’s foreign trade and economic development, and it is therefore unnecessary to dwell further on them here. On the other hand it is useful to consider some ancillary conclusions, summed up in the sections that follow.

(1) Factors relating principally to the policy of the large industrial countries as causes of appreciable reductions in Latin America’s share of world trade and changes in the composition of the region’s traditional exports

385. The magnitude and consequences of the stagnation of Latin American trade have been described in detail above. The extent to which this stagnation has affected certain basic sectors of the region’s trade has already been shown in table 19. This table shows that between 1934-38 and 1950-52, Latin America’s share increased for only five of the twenty-three products covered by the data available, and only two of these products (sugar and cotton) were of significant importance in the region’s total exports. Between 1950-52 and 1959-61 there was a general though less marked reduction in the Latin American share; there was an increase in respect of only four of the thirty-one products considered, and of these cotton was the only product of any importance. It is not, of course, possible to assess with any precision the effect of this decline in Latin America’s share of the world market on the region’s foreign trade, but some calculations can be made by way of illustration. For this purpose it is convenient to confine the study to a smaller number of products in which Latin America has maintained a clearly competitive footing from the price standpoint. This applies, for example, to tropical commodities, notably coffee and cacao, which have remained competitive in relation to other areas, allowing for the differences of quality for some products. The same is true for some temperate-zone commodities among which maize, wheat, beef, barely and linseed have been selected for the purposes of the hypothetical calculation, products for which the Latin American prices are, broadly speaking, the lowest in the world. If effective exports of these commodities are compared with what could have been exported if the share of world trade that went to Latin America in 1934-38 had been maintained, and the differences of the various averages are expressed in f.o.b. prices for the year concerned, the following figures are obtained (in millions of dollars):

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<td>Cacao (1953-1962)</td>
<td>2,900</td>
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<td>Beef (1953-1961)</td>
<td>1,800</td>
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<td>Barley (1953-1961)</td>
<td>1,100</td>
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<td>Linseed oil (1953-1961)</td>
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386. Thus, in roughly ten years, the reduction in Latin America’s share of world trade has involved a loss in export income of the order of $9,000 million.

387. Naturally, it is much more difficult to determine how far this reduction is related to the restrictive or discriminatory protectionist policies pursued by the industrial areas. Nevertheless, some indirect indication of the effect of such policies can be obtained by studying the trends in the structure of Latin American exports. As stated previously, these policies were harsh for agricultural products, less so for fuels and ores, but virtually prohibitive as regards any possibility of a share of the market in the industrial countries for exports of manufactured goods. If these policies had in fact succeeded in having any marked effect on the flow of Latin American trade, the differences in the degree of protection and restrictions would necessarily be reflected in changes in the structure of Latin American exports, on the lines of the discriminatory treatment of the different types of products.

388. A study of the figures in table 53 leaves little doubt that this is the case, even though the table is limited in scope because of the lack of data available for the periods selected between the years 1950 and 1961.

389. Between the three-year periods 1950-52 and 1959-61 petroleum replaced coffee as the principal export of Latin America, the share of petroleum increasing from 20.6 to 27.6 per cent of the region’s exports, and the share of coffee declining from 22.6 to 17 per cent. Many agricultural products also declined in relative importance during the same period; sugar, for example, from 9.3 to 8.1 per cent; cotton from 5 to 3.9 per cent; wheat from 2 to 1.4 per cent, and bananas from 2 to 1.8 per cent. The one or two increases were exceptional (for example, the share of maize rose from 0.6 to 1.4 per cent). Under the heading of livestock products the increase in the share of meat from 1.6 to 2.1 per cent was offset by decreases for wool (from 3.4 to 2.4 per cent) and hides (from 2.3 to 0.9 per cent).

390. The increase in the share of mineral products was largely due to the expansion in exports of iron
ore (the only new product of any significance during the period, representing 3.1 per cent of total exports) and copper (whose share rose from 3.8 to 5.1 per cent). On the other hand there were significant decreases in the contributions of lead, tin and zinc.

(2) The agricultural policy of the industrial countries as a predominant factor in limiting the growth of Latin American exports

391. The general information presented above is sufficient indication that the agricultural policy pursued by the main developed areas has been one of the principal factors responsible for the poor performance of Latin American exports. However, the implications of the problem are so far-reaching that it is appropriate to consider a few other relevant factors.

392. One of these relates to the expansion of agricultural production in the industrial areas. In the United States, agricultural production expanded by 15 per cent between 1930 and 1940, nearly 25 per cent between 1940 and 1950 and nearly 30 per cent between 1950 and 1960. This reveals a growth rate that is not in line with domestic needs. In the countries of the European Economic Community, the increase between pre-war levels of agricultural production and those for the crop year 1962/63 were 50 per cent in France and Belgium, almost as much in the Federal Republic of Germany and Italy, and nearly 80 per cent in the Netherlands. In the United Kingdom, agricultural production nearly doubled during this period. In addition it should be borne in mind, in evaluating the meaning of these increases, that the countries concerned have much lower demographic growth rates than those in large areas of the under-developed world.

393. Another factor which should be noted is that this expansion can only have been achieved by a basic change in agricultural techniques. Under the stimulus of subsidies, price supports and reserved markets, which involved the mobilization of financial resources on a scale quite beyond the reach of the developing countries, the use of improved techniques and inputs has been taken to the limits of economy.

394. The figures in table 54 illustrate, for a sample group of commodities, the increase in production in the various areas between 1934-38 and 1958-60. The table shows that, in practically all the developing areas, the rise in production is due to increases in the area under cultivation, while in the more advanced economies the difference is mainly due to marked increases in yield per hectare, which in North America amounts to nearly 80 per cent.

395. This inevitably raises the question of how far an agricultural policy such as that pursued by some of the large industrial countries is legitimate, from the standpoint not only of the principles of international solidarity and the responsibility of the industrial economies towards the developing countries, but also from a strictly economic point of view. Admittedly there would be some initial justification for trying to preserve the continuity of essential rural activities and avoid any deterioration in the relative position of the agricultural sector in the national economy, or even for confining action to an attempt to reduce or remedy temporary balance-of-payments problems; neither course is likely to cause serious disturbances of international trade. But it is quite another matter when this type of policy is transformed into a permanent line of action and intensified to the point when it results in vast surpluses that subsequently come on the world market with the support of subsidies to offset their higher costs.

396. The deterioration in prices that such a policy inevitably leads to entailed no problem for the industrial countries other than an adjustment in the subsidy levels, whereas for the developing countries the result was a reduction in the already low earnings of an impoverished agricultural sector. Because of this, and because of the need in these circumstances to restrict production to levels of output that can readily be disposed of, the developing countries are deprived of any chance of increasing their own agricultural activity or introducing any technical advances that might be economically justifiable.

397. This does not apply only to temperate-zone commodities. The restrictions and charges that limit consumption of tropical commodities in the more advanced countries are a serious obstacle to any increase in exports from the supplier countries in the under-developed areas. In some cases, where the growth cycle is relatively long, it has not been possible to reduce output immediately in response to restrictions of demand, and the developing countries have been obliged to carry the burden of financing increasingly large surpluses. For coffee alone, the present Latin American stocks calculated at market prices represent some $2,500 million, or a quarter of the value of Latin America’s total annual exports.

398. It must be recognized, in addition, that the effect of the figures concerned is very different for the industrial economies and for the developing countries.
Agricultural protection, for the former, means safeguarding a sector whose relative importance in terms of total income is slight (5 per cent in the United States and the United Kingdom, 8 per cent in Belgium, 10 per cent in the Federal Republic of Germany and 16 per cent in France), and which employs only a small proportion of the total labour force. For the developing countries, on the contrary, anything that affects agriculture is affecting a sector that may generate more than half the national income, that represents a very high proportion of current export possibilities and absorbs a substantial amount of the labour force. Similarly, the estimated $1,000 million a year which represents part of the loss to Latin America caused by the present distortions in trade in agricultural products is no more than a fraction of the foreign trade of the industrial countries, but represent about 12 per cent of all Latin American exports.

(3) Continuing dependence of Latin American exports on a small number of primary commodities in the post-war period

399. As previously stated, exports of primary commodities (agricultural products, fuels and minerals) still constitute a very high proportion of the region’s total exports: 93 per cent of total value in recent times, compared with 96 per cent in 1950-52 and 94 per cent in 1948. This fact alone suggests that the obstacles responsible for the very inadequate growth of exports of traditional products have had an equal effect in blocking the path to any expansion of new trade lines, especially in the form of exports of manufactures. However, a more exact assessment of the possible effects of the conditions obtaining in the industrial economies, and of other factors of a domestic nature to which reference is made in the appropriate sections, calls for a more detailed study since in any consideration confined to over-all figures, the type of definition or classification adopted may have the effect of concealing trends of some significance.

### Table 55
**Latin America¹: Exports according to degree of processing, 1961**

<table>
<thead>
<tr>
<th>Product</th>
<th>Unprocessed</th>
<th>Intermediate</th>
<th>Finished</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Food, beverages, tobacco</td>
<td>3 221</td>
<td>184</td>
<td>148</td>
<td>3 553</td>
</tr>
<tr>
<td>Textiles (fibres, yarns, etc.)</td>
<td>676</td>
<td>53</td>
<td>20</td>
<td>749</td>
</tr>
<tr>
<td>Metals</td>
<td>419</td>
<td>576</td>
<td>37</td>
<td>1 032</td>
</tr>
<tr>
<td>Petroleum</td>
<td>1 736</td>
<td>623</td>
<td>—</td>
<td>2 359</td>
</tr>
<tr>
<td>Chemicals</td>
<td>—</td>
<td>65</td>
<td>27</td>
<td>92</td>
</tr>
<tr>
<td>Seeds, fats and oils</td>
<td>29</td>
<td>133</td>
<td>—</td>
<td>163</td>
</tr>
<tr>
<td>Other products</td>
<td>522</td>
<td>22</td>
<td>34</td>
<td>578</td>
</tr>
<tr>
<td>Not classified</td>
<td>24</td>
<td>—</td>
<td>—</td>
<td>24</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>6 627</strong></td>
<td><strong>1 656</strong></td>
<td><strong>266</strong></td>
<td><strong>8 549</strong></td>
</tr>
</tbody>
</table>

*Excluding Haiti and Nicaragua.

**Table 56**
**Latin America¹: Exports of traditional and non-traditional Manufactured products, 1961**

<table>
<thead>
<tr>
<th>Products</th>
<th>Value (millions of dollars)</th>
<th>Percentage of:</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total exports</td>
<td>Manufactured exports</td>
</tr>
<tr>
<td>Traditional exports</td>
<td>1 553.7</td>
<td>18.2</td>
</tr>
<tr>
<td>Processed foods</td>
<td>212.8</td>
<td>2.5</td>
</tr>
<tr>
<td>Fats and oils</td>
<td>133.1</td>
<td>1.6</td>
</tr>
<tr>
<td>Non-ferrous metals (worked)</td>
<td>564.3</td>
<td>6.6</td>
</tr>
<tr>
<td>Petroleum products</td>
<td>623.5</td>
<td>7.3</td>
</tr>
<tr>
<td>Essential oils</td>
<td>19.9</td>
<td>0.2</td>
</tr>
<tr>
<td>Non-traditional exports</td>
<td>367.7</td>
<td>4.3</td>
</tr>
<tr>
<td>Processed foods (including</td>
<td></td>
<td></td>
</tr>
<tr>
<td>animal feed, beverages, etc.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Textile yarn and fabrics</td>
<td>118.6</td>
<td>1.4</td>
</tr>
<tr>
<td>Clothing (including</td>
<td>72.5</td>
<td>0.8</td>
</tr>
<tr>
<td>footwear)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Leather and leather</td>
<td>8.3</td>
<td>0.1</td>
</tr>
<tr>
<td>manufactures</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Chemicals</td>
<td>71.8</td>
<td>0.8</td>
</tr>
<tr>
<td>Mineral manufactures</td>
<td>15.8</td>
<td>0.2</td>
</tr>
<tr>
<td>Ferrous metals (worked)</td>
<td>11.5</td>
<td>0.1</td>
</tr>
<tr>
<td>Metal manufactures and</td>
<td>37.0</td>
<td>0.5</td>
</tr>
<tr>
<td>machinery</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other manufactures</td>
<td>28.2</td>
<td>0.3</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>1 921.4</strong></td>
<td><strong>22.5</strong></td>
</tr>
</tbody>
</table>

*Excluding Haiti and Nicaragua. The data for Cuba were based on 1960.

400. Table 55 shows the structure of Latin American exports as a whole in 1961, by degree of processing. More than three-quarters of the region’s exports were in a crude or virtually unprocessed state,27 19 per cent in a semi-processed or intermediate state, and only 3 per cent in a fully processed state.

401. Moreover, it would be incorrect to infer from these data that the exports of intermediate and finished products represent manufactured goods proper. The bulk of the figures in these categories are in fact petroleum products, refined minerals, fats and oils, refined sugar and other foodstuffs which represent only very simply processed forms of Latin America’s traditional export items. A clearer picture is given by table 56 which distinguishes between the manufactured exports of a non-traditional type and those that are forms of the traditional primary commodities.

This table shows that in 1961, despite all the unfavourable factors affecting the region’s traditional exports, the exports of manufactures proper represented only a little over 4 per cent of the total.

402. Among the manufactured items not traditionally exported, chemicals, textiles, animal foods and other foods were the most significant, but none of them accounted for even 1 per cent of the region’s exports for 1961.

27 Conventionally, items such as chilled meat that involve only the minimum processing necessary for transport purposes are considered as crude. The same applies to products such as cotton fibre, husked rice, etc., which from some standpoints are considered as products of manufacturing industry.
403. Food products consisted mainly (in order of importance) of cocoa paste and butter, tinned fish, tinned fruit (mainly peaches), coffee extracts, chocolate, tinned vegetables, fruit juices, tinned or dehydrated milk, and sugar confectionery. A small amount of alcoholic beverages were also exported, mainly wine from Chile and rum from the Caribbean countries. The most outstanding development in recent years, is the growth of an export trade in fishmeal; exports from Peru, and to a smaller extent from Chile, have found a ready acceptance as animal food or fertilizer in the European market, and represented a value of $53 million in 1961, as against only $285,000 in 1950.

404. Exports of chemicals consisted mainly of metallic oxides, glycerine, ethyl alcohol, acids, drugs, medicines, insecticides, dextrins, casein and gluten flour.

405. In the textile group, only wool tops, hard-fibre yarns and to some extent, cotton fabrics were of any significance. Trade in cotton yarns still amounts to very little, and exports of wool fabrics have not developed as might have been expected in a wool-producing region. Similarly, manufactured clothing is not exported to any extent, while footwear and other articles of leather find acceptance only in limited quantities.

406. In the ferrous metals group there is a small volume of trade, mainly with the United States and Japan, in iron and steel (in the form of bars, sheet, plate, wire, tubes etc.). In recent years some trade has also developed in metal manufactures, machinery and transport equipment, although about half of this trade is intra-regional. Similarly, the newly-developed trade in paper, cement, timber products, films, books, musical instruments, records, optical and scientific instruments, furniture, rubber products and other finished goods is mainly between the Latin American countries themselves, and does not represent sales on the world market.

407. The obstacles to any expansion of Latin America's small share of world trade in products of this type have even led to a reduction in its share compared with that of earlier periods. Thus in 1952 finished products exported by Latin America represented 4.4 per cent of the total imports of such products by Canada, the United States, western Europe and Japan, but the proportion shrank to 3.9 per cent in 1956 and as little as 2.9 per cent in 1961.

408. There was an even more marked contraction in manufactured products for final consumption, while the decline in exports of many items included under the heading of intermediate or semi-finished products was offset by the increase in exports of fuel oil and other petroleum products. In the fifties the share of semi-processed non-ferrous metals in the main markets fell from 17 to 12 per cent.

409. The trend was very different in other developing countries and in western Europe, whose share of the markets represented by the industrial countries increased from 10.8 per cent to 12.2 per cent for semi-finished products not belonging to the category of traditional Latin American exports and from 10.7 per cent to 12.5 per cent for finished products (see tables 57, 58 and 59).

410. The increase in exports from the other developing zones was substantial, not only for cotton textiles and clothing but also for many other finished products. The increase in the share of the market of some of these products between 1952 and 1961 was electrical machinery, from 3.3 to 11.0 per cent; metal manufactures, 3.5 to 9.2 per cent; rugs and carpets, 3.6 to 42.6 per cent; leather manufactures, 6.9 to 10.8 per cent; there were also increases for wood products, yarns, manufactures of non-metalliferous ores and many other semi-finished products.

411. The position of Mexico is worthy of special note, since that country effected a substantial diversification of its exports, and has wide range of manufactured and semi-manufactured goods.

(4) Limited extent and slow development of geographical diversification of Latin America's foreign trade

412. As a result of Latin America's growing difficulty in expanding its trade with its traditional markets, for the reasons considered above, it has become urgently necessary to seek new markets and intensify trade with other areas.

413. One of the main features of Latin American trade has been the high percentage of its exports to the western group of industrial countries. Table 60 gives the destination of Latin American exports since 1938, and shows how over a period of more than twenty years this trend has been maintained with only slight changes. In fact, three-quarters of Latin America's exports go to the United States and western Europe. Trade inside Latin America itself has remained within relatively modest limits, although in 1962, the first year when the tariff reductions agreed upon under the Latin American Free-Trade Association came into force, its share of total Latin American trade rose slightly compared with its level in 1961. Trade with other developing areas has been practically negligible, representing less than 1 per cent of the total, and continues at a low level although there has been an increase recently in trade with the countries of eastern Europe.

414. This concentration of exports on the industrial countries with which the region has traditional trade, cultural and political links is typical of developing countries. For a long time now the western industrial countries have been the main purchasers of the agricultural products that constitute the basis of the developing countries' trade. The very dependence of exports on these primary commodities, whose production is duplicated all over Latin America, is sufficient reason for the low level of intra-regional trade, and also for the low level of trade with other developing areas. Lastly, the area of the centrally planned economies, already industrialized, has only recently appeared on the scene as a possible large-scale buyer.

415. The prospects of intensifying trade within Latin America, with other developing areas, and with the centrally-planned economies are analysed elsewhere in this study.
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LATIN AMERICA AND THE CONFERENCE

TABLE 57

Percentage share of Latin America and other areas in imports of manufactures by the industrialized countries
Origin
Latin America

Developed countries

Eastern Europe

Rest of the world

1956

1961

1952

1956

1961

1952

1956

1961

1952

1956

1961

Total manufactures
Traditional products
Non-traditional products . . . .

4.4
13.6
1.0

3.9
13.7
0.8

2.9
14.0
0.5

77.9
49.5
88.4

78.6
50.8
87.5

81.1
53.1
87.1

1.0
0.6
1.2

1.9
2.1
1.8

2.1
3.9
1.7

16.7
36.3
9.4

15.6
33.4
9.9

13.9
29.0
10.1

Traditional products
Foods, beverages and tobacco...
Canned meat
Wheat
flour
Tobacco manufactures . . . .
Petroleum products
Oils and fats
Animal oils
Vegetable oils
Essential oils
Non-ferrous metals
Copper
Lead
Zinc
Tin

13.6
8.0
22.7
0.8
17.7
9.8
14.1
0.9
13.5
9.7
17.1
29.1
30.1
4.7
0.1

13.7
8.2
21.3
0.1
17.8
15.4
7.6
1.6
6.3
10.7
16.1
25.8
27.6
5.2
0.3

14.0
9.6
25.2
0.2
9.2
17.9
16.3
9.9
16.9
9.2
12.4
21.4
23.8
7.3
1.6

89.5
54.4
42.1
64.8
74.6
49.8
34.0
57.3
26.3
54.5
51.7
37.2
34.1
84.1
43.5

50.8
53.2
46.0
62.5
75.9
46.6
41.5
68.3
30.5
57.0
54.6
40.1
29.6
79.4
43.7

53.1
58.6
46.7
79.7
86.6
43.0
41.5
64.1
31.8
62.0
60.9
47.0
42.8
69.8
38.8

0.6
2.0
2.5
0.3
—0.7
0.6
0.1
0.7
2.1
—
—
—
—
—

2.1
2.8
8.0
—
0.6
3.4
0.4
—
0.5
1.6
1.5
—
—
4.3
0.7

3.9
5.6
11.6
0.2
—
6.7
2.0
0.1
0.3
1.8
1.8
0.1
10.1
13.8
0.3

36.3
35.6
32.7
34.1
7.7
39.7
51.3
41.7
59.5
33.7
31.2
33.7
35.8
11.2
56.4

33.4
35.8
24.7
37.4
5.7
34.6
50.5
30.1
62.7
30.7
27.8
34.1
42.8
11.1
55.3

29.0
26.2
16.5
19.9
4.2
32.4
40.2
25.9
51.0
27.0
24.9
31.5
23.3
9.1
59.3

Non-traditional products
1.0
Intermediate products
1.7
Leather and dressed furs. . . .
3.0
Wood, shaped or simply worked 0.6
Pulp
—
Yarn
1.0
Chemicals
6.4
Iron and steel
0.4
Processed, non-metallic minerals 0.7
Final products
0.6
Foods and beverages
2.2
Canned
fish
5.5
Cereal preparations
0.5
Canned fruit
3.2
Canned vegetables
4.3
Chocolate
11.5
Food preparations
0.5
Beverages
0.4
Leather manufactures
2.2
Footwear
2.5
Cotton fabrics
0.3
Fabrics of other
fibres
0.2
Special fabrics
13.3
Ready-made clothing
1.4
Carpets
0.4
Clothing
1.2
Pharmaceutical products . . . .
5.1
Soaps and perfumes
0.9
Paints
0.1
Fertilizers
1.0
Glass, earthenware, etc
0.1
Scientific instruments
0.1
Metal manufactures
0.1
Non-electrical machinery . . . .
0.1
Electrical machinery
—
Transport machinery
0.4
Other manufactures, n.e.s
0.8

0.8
1.4
2.4
0.3
—
0.5
4.4
0.3
1.0
0.5
2.2
4.6
0.1
3.0
3.9
12.7
2.9
0.2
2.4
1.8
—
0.3
11.4
1.0
0.3
0.5
3.2
—
1.6
0.4
0.1
0.2
0.1
—
—
0.5
0.6

0.5
1.0
1.5
0.8
—
0.2
2.4
0.2
1.8
0.4
1.5
3.6
—
2.9
1.9
8.2
0.2
0.2
2.3
0.7
0.1
0.1
9.3
0.7
0.1
0.1
2.9
—
—
0.6
0.3
0.1
0.1
0.1
0.1
0.1
0.4

88.4
87.5
65.6
67.2
83.1
95.0
85.5
67.2
87.8
88.7
55.0
46.4
70.9
35.6
54.8
81.0
84.3
52.7
90.8
82.7
83.3
70.8
78.3
65.3
64.0
83.6
90.0
91.0
98.0
90.0
75.4
96.2
96.4
98.5
96.7
98.3
90.2

87.5
86.4
68.6
63.2
84.9
93.8
87.3
71.6
78.8
88.0
54.9
37.3
81.7
40.6
66.5
85.1
53.1
59.5
92.0
73.7
67.4
77.3
78.1
71.1
65.6
69.4
92.0
98.8
94.8
90.0
80.9
94.3
93.6
98.0
96.7
97.0
86.5

87.1
86.8
75.4
58.8
82.8
92.2
89.2
81.0
79.0
87.1
66.4
46.4
88.0
51.2
66.7
88.1
90.9
69.8
89.9
66.3
67.3
74.5
82.1
66.1
57.3
69.2
92.6
99.1
97.7
91.0
81.4
90.8
90.7
97.3
89.0
96.1
79.9

1.2
0.9
3.2
4.8
0.4
0.2
1.3
0.2
0.8
1.3
2.0
6.1
14.9
0.3
1.6
2.5
1.4
0.2
1.0
4.0
2.5
0.6
1.0
1.0
1.1
1.4
0.8
—
—
9.0
9.9
1.2
0.8
0.6
0.5
0.8
1.9

1.8
2.7
3.2
2.1
1.3
0.2
2.9
3.8
2.1
1.4
1.5
5.3
10.0
0.7
1.3
0.4
—
0.2
0.6
3.8
0.3
1.8
1.3
2.1
3.9
2.0
0.8
0.3
1.2
6.1
6.5
0.9
0.7
1.0
0.8
1.0
1.9

1.7
2.7
2.3
3.8
2.0
0.2
2.9
2.6
1.2
1.3
1.8
3.9
5.8
1.9
4.5
0.9
0.2
0.4
0.3
2.5
2.3
0.8
0.9
3.9
2.3
1.4
0.9
0.2
0.7
5.8
5.9
1.0
0.6
1.0
0.7
0.7
1.7

9.4
9.9
28.2
27.4
16.5
3.8
6.8
32.2
10.7
9.4
40.8
42.0
13.7
60.9
39.3
5.0
13.8
46.7
6.0
10.8
13.9
28.4
7.4
32.3
34.5
13.8
4.1
8.1
1.9
—
14.6
2.5
2.7
0.8
2.8
0.5
7.1

9.9
9.5
25.8
34.4
13.8
5.5
5.4
24.3
18.1
10.1
41.4
52.8
8.2
55.7
28.3
1.8
44.0
40.1
5.0
20.7
32.3
20.6
9.2
25.8
32.2
28.1
4.0
0.9
2.4
3.5
12.5
4.6
5.6
1.0
2.5
1.5
11.0

10.7
9.5
20.8
36.6
15.2
7.4
5.5
16.2
18.0
11.2
30.3
46.1
6.2
44.0
26.9
2.8
8.7
29.6
7.5
30.5
30.3
24.6
7.7
29.3
40.3
29.3
3.6
0.7
1.6
2.6
12.4
8.1
8.6
1.6
10.2
3.1
18.0


<table>
<thead>
<tr>
<th>Product</th>
<th>World</th>
<th>Latin America</th>
<th>United States</th>
<th>Canada</th>
<th>Japan</th>
<th>Western Europe</th>
<th>Eastern Europe</th>
<th>Other</th>
</tr>
</thead>
<tbody>
<tr>
<td>Food products</td>
<td>326.5</td>
<td>37.5</td>
<td>162.6</td>
<td>5.3</td>
<td>4.3</td>
<td>110.4</td>
<td>0.8</td>
<td>5.6</td>
</tr>
<tr>
<td>Refined sugar</td>
<td>101.0</td>
<td>10.0</td>
<td>86.8</td>
<td>2.4</td>
<td>0.9</td>
<td></td>
<td></td>
<td>2.0</td>
</tr>
<tr>
<td>Canned meat</td>
<td>90.3</td>
<td>10.9</td>
<td>30.0</td>
<td>2.0</td>
<td></td>
<td>46.1</td>
<td></td>
<td>1.3</td>
</tr>
<tr>
<td>Cocoa paste</td>
<td>18.7</td>
<td>7.1</td>
<td>1.1</td>
<td>9.6</td>
<td>0.4</td>
<td></td>
<td></td>
<td>0.5</td>
</tr>
<tr>
<td>Canned fish</td>
<td>12.0</td>
<td>0.3</td>
<td>6.1</td>
<td>0.9</td>
<td>4.1</td>
<td></td>
<td></td>
<td>0.5</td>
</tr>
<tr>
<td>Butter</td>
<td>8.6</td>
<td>2.6</td>
<td></td>
<td>6.0</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Canned fruit</td>
<td>7.4</td>
<td>1.2</td>
<td>3.6</td>
<td>0.5</td>
<td>2.0</td>
<td></td>
<td></td>
<td>0.1</td>
</tr>
<tr>
<td>Coffee extracts</td>
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<td>1.3</td>
<td>—</td>
<td>0.2</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Agricultural machinery</td>
<td>1.0</td>
<td>0.4</td>
<td>0.6</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Office machinery</td>
<td>0.6</td>
<td>0.4</td>
<td>0.2</td>
<td>—</td>
<td>0.1</td>
<td>0.2</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Power-generating machinery</td>
<td>0.5</td>
<td>0.2</td>
<td>0.2</td>
<td>—</td>
<td>0.1</td>
<td>0.2</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Metal-working machinery</td>
<td>0.3</td>
<td>0.2</td>
<td>—</td>
<td>—</td>
<td>0.1</td>
<td>0.1</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Other non-electrical machinery</td>
<td>10.6</td>
<td>6.8</td>
<td>2.4</td>
<td>—</td>
<td>1.2</td>
<td>0.2</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Transport equipment</td>
<td>13.6</td>
<td>6.4</td>
<td>4.4</td>
<td>0.1</td>
<td>2.4</td>
<td>0.2</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Motor vehicles</td>
<td>6.3</td>
<td>4.4</td>
<td>1.6</td>
<td>—</td>
<td>—</td>
<td>0.1</td>
<td>0.2</td>
<td>—</td>
</tr>
<tr>
<td>Aircraft</td>
<td>5.8</td>
<td>0.7</td>
<td>2.7</td>
<td>0.1</td>
<td>2.3</td>
<td>0.2</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Ships and boats</td>
<td>1.1</td>
<td>1.0</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Railway rolling-stock</td>
<td>0.3</td>
<td>0.2</td>
<td>0.1</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Non-motorized vehicles</td>
<td>0.1</td>
<td>0.1</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Miscellaneous manufactured articles</td>
<td>9.3</td>
<td>4.1</td>
<td>4.5</td>
<td>0.1</td>
<td>0.4</td>
<td>0.2</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Musical instruments</td>
<td>1.9</td>
<td>0.8</td>
<td>0.9</td>
<td>—</td>
<td>—</td>
<td>0.1</td>
<td>0.1</td>
<td>—</td>
</tr>
<tr>
<td>Film</td>
<td>1.4</td>
<td>0.9</td>
<td>0.3</td>
<td>—</td>
<td>—</td>
<td>0.2</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Furniture</td>
<td>0.9</td>
<td>0.4</td>
<td>0.4</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>0.1</td>
<td>—</td>
</tr>
<tr>
<td>Scientific instruments</td>
<td>0.7</td>
<td>0.4</td>
<td>0.2</td>
<td>0.1</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Other</td>
<td>4.4</td>
<td>1.6</td>
<td>2.7</td>
<td>—</td>
<td>0.1</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
</tbody>
</table>

416. Table 61 compares the geographical distribution of the trade of the various regions of the world. It reveals the concentration of trade that can be regarded as typical of developing countries. But the comparison between the various regions points to two unfavourable features peculiar to Latin America; the first is that the extent of the region's dependence on trade with the industrial countries of the West is second (and by a very small margin) only to that of Africa, and by the developing areas of the world. The second is that the proportion represented by intra-regional trade is much less than in other developing areas, such as those in Asia, which have clearly been more successful in increasing intra-regional trade.

417. If the trade between the developing areas and the centrally-planned economies is considered, it will be seen that it amounts to approximately 6 per cent in nearly every area, but in the case of Latin America this figure would be cut by half if Cuba were excluded.

418. This excessive concentration of exports in a few parts of the world indicates great weaknesses in the structure of Latin American trade. In the first place, the region is neglecting the opportunities for trade in large areas of the world. Secondly, the Latin
American external sector does not have the flexibility needed to offset losses in some areas by gains in others, which means that the region is deprived of much of its bargaining power.

419. At the present time exports from Latin America to Eastern Europe, Asia (including Japan), Africa and Oceania are limited almost entirely to the basic export products, the main items (in order of importance) being cotton, sugar, wool, iron ore and maize to Japan; sugar, wool, coffee, hides, cacao, iron ore and linseed oil to Eastern Europe (this trade being divided fairly equally between Czechoslovakia, Poland and the Soviet Union, with a smaller share for East Germany); and cotton, coffee, tinned meats, sugar and tobacco to Asia, Africa, Oceania and the West Indies. A certain number of other products are also sent to the latter areas and to Eastern Europe, but the trade is irregular and on a small scale, and varies greatly from year to year.

420. As far as the industrial countries of the West are concerned, Latin American exports to the United Kingdom have fluctuated around absolute levels that have remained more or less stationary over the past fifteen years ($850 million in 1948, only $385 million in 1952, $670 million in 1956 and 1958, $740 million in 1960 and $695 million in 1961), but Latin America's share of the total imports of these countries has declined. Latin American exports to the United States have also varied in proportion; although the percentages in 1948 and 1961 were almost the same (slightly over 39 per cent), higher levels were attained in intervening years (as much as 49.2 per cent in 1950-52).

421. Latin American exports to members of the European Economic Community, at least if expressed

**Table 59**

Percentage distribution of manufactures exported by Latin America, by destination and by groups of products, 1961 (Percentages)

<table>
<thead>
<tr>
<th>Group</th>
<th>Latin America</th>
<th>United States</th>
<th>Canada</th>
<th>Japan</th>
<th>Western Europe</th>
<th>Eastern Europe</th>
<th>Others</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Foods, beverages, tobacco</td>
<td>11.7</td>
<td>49.4</td>
<td>1.6</td>
<td>1.3</td>
<td>33.9</td>
<td>0.2</td>
<td>1.9</td>
<td>100</td>
</tr>
<tr>
<td>Intermediate products</td>
<td>7.1</td>
<td>59.9</td>
<td>0.8</td>
<td>2.3</td>
<td>27.8</td>
<td>0.4</td>
<td>1.7</td>
<td>100</td>
</tr>
<tr>
<td>Final products</td>
<td>17.3</td>
<td>36.5</td>
<td>2.6</td>
<td>0.1</td>
<td>41.4</td>
<td>—</td>
<td>2.1</td>
<td>100</td>
</tr>
<tr>
<td>Oils and fats</td>
<td>5.2</td>
<td>16.0</td>
<td>0.3</td>
<td>0.2</td>
<td>70.7</td>
<td>4.9</td>
<td>2.7</td>
<td>100</td>
</tr>
<tr>
<td>Petroleum products</td>
<td>10.5</td>
<td>42.0</td>
<td>3.6</td>
<td>0.2</td>
<td>17.9</td>
<td>—</td>
<td>25.8</td>
<td>100</td>
</tr>
<tr>
<td>Wood, paper, printed matter</td>
<td>79.2</td>
<td>14.2</td>
<td>0.2</td>
<td>—</td>
<td>3.8</td>
<td>—</td>
<td>2.6</td>
<td>100</td>
</tr>
<tr>
<td>Ores</td>
<td>18.7</td>
<td>45.9</td>
<td>0.1</td>
<td>0.6</td>
<td>4.9</td>
<td>—</td>
<td>29.8</td>
<td>100</td>
</tr>
<tr>
<td>Worked metals</td>
<td>2.2</td>
<td>39.4</td>
<td>—</td>
<td>1.8</td>
<td>56.2</td>
<td>—</td>
<td>0.4</td>
<td>100</td>
</tr>
<tr>
<td>Chemicals</td>
<td>17.2</td>
<td>58.8</td>
<td>0.4</td>
<td>1.8</td>
<td>19.3</td>
<td>0.5</td>
<td>3.0</td>
<td>100</td>
</tr>
<tr>
<td>Intermediate products</td>
<td>6.3</td>
<td>71.9</td>
<td>0.2</td>
<td>1.1</td>
<td>18.1</td>
<td>0.7</td>
<td>1.7</td>
<td>100</td>
</tr>
<tr>
<td>Final products</td>
<td>43.3</td>
<td>27.8</td>
<td>0.7</td>
<td>—</td>
<td>22.0</td>
<td>—</td>
<td>6.2</td>
<td>100</td>
</tr>
<tr>
<td>Textiles</td>
<td>11.6</td>
<td>35.1</td>
<td>1.3</td>
<td>0.7</td>
<td>23.1</td>
<td>0.7</td>
<td>21.5</td>
<td>100</td>
</tr>
<tr>
<td>Yarn</td>
<td>6.9</td>
<td>40.0</td>
<td>0.7</td>
<td>1.0</td>
<td>39.3</td>
<td>0.9</td>
<td>11.2</td>
<td>100</td>
</tr>
<tr>
<td>Fabrics, etc.</td>
<td>24.1</td>
<td>22.3</td>
<td>2.9</td>
<td>—</td>
<td>2.0</td>
<td>0.1</td>
<td>48.6</td>
<td>100</td>
</tr>
<tr>
<td>Clothing</td>
<td>35.9</td>
<td>34.7</td>
<td>0.4</td>
<td>0.1</td>
<td>2.2</td>
<td>1.2</td>
<td>5.5</td>
<td>100</td>
</tr>
<tr>
<td>Footwear</td>
<td>14.7</td>
<td>82.7</td>
<td>0.4</td>
<td>—</td>
<td>0.3</td>
<td>—</td>
<td>1.9</td>
<td>100</td>
</tr>
<tr>
<td>Metal manufactures and machinery</td>
<td>59.3</td>
<td>25.7</td>
<td>0.9</td>
<td>0.1</td>
<td>11.5</td>
<td>0.1</td>
<td>2.4</td>
<td>100</td>
</tr>
<tr>
<td>Other products</td>
<td>34.4</td>
<td>46.6</td>
<td>0.8</td>
<td>0.6</td>
<td>13.6</td>
<td>0.8</td>
<td>3.2</td>
<td>100</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>10.1</strong></td>
<td><strong>40.8</strong></td>
<td><strong>1.6</strong></td>
<td><strong>0.9</strong></td>
<td><strong>35.9</strong></td>
<td><strong>0.4</strong></td>
<td><strong>10.3</strong></td>
<td><strong>100</strong></td>
</tr>
<tr>
<td>Intermediate products</td>
<td>6.6</td>
<td>42.2</td>
<td>1.5</td>
<td>1.0</td>
<td>37.2</td>
<td>0.5</td>
<td>11.0</td>
<td>100</td>
</tr>
<tr>
<td>Final products</td>
<td>32.1</td>
<td>32.4</td>
<td>1.9</td>
<td>0.1</td>
<td>27.4</td>
<td>0.1</td>
<td>6.1</td>
<td>100</td>
</tr>
</tbody>
</table>

**Table 60**

Latin America: Destination of exports (Percentages)

<table>
<thead>
<tr>
<th>Year</th>
<th>Total</th>
<th>Latin America</th>
<th>Canada</th>
<th>United States</th>
<th>Western Europe</th>
<th>Eastern Europe</th>
<th>Japan</th>
<th>Other countries</th>
</tr>
</thead>
<tbody>
<tr>
<td>1938</td>
<td>100</td>
<td>6</td>
<td>1</td>
<td>30</td>
<td>47</td>
<td>25</td>
<td>21</td>
<td>1</td>
</tr>
<tr>
<td>1948</td>
<td>100</td>
<td>9</td>
<td>2</td>
<td>37</td>
<td>35</td>
<td>19</td>
<td>17</td>
<td>1</td>
</tr>
<tr>
<td>1950-1952</td>
<td>100</td>
<td>8</td>
<td>1</td>
<td>48</td>
<td>26</td>
<td>12</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>1955-1957</td>
<td>100</td>
<td>8</td>
<td>1</td>
<td>44</td>
<td>29</td>
<td>15</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>1959-1961</td>
<td>100</td>
<td>8</td>
<td>2</td>
<td>41</td>
<td>31</td>
<td>18</td>
<td>11</td>
<td>3</td>
</tr>
</tbody>
</table>

* Including countries that do not belong to either EEC or EFTA.
Table 61
Dependence of exporting areas on the main markets, 1961
(Percentages)

<table>
<thead>
<tr>
<th>Exporting area</th>
<th>Intra-regional trade</th>
<th>Western developed countries</th>
<th>Under-developed countries</th>
<th>Centrally-planned economies</th>
<th>Unclassified</th>
</tr>
</thead>
<tbody>
<tr>
<td>Developing countries</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Africa</td>
<td>22.0</td>
<td>71.8</td>
<td>—</td>
<td>5.3</td>
<td>0.9</td>
</tr>
<tr>
<td>Far East</td>
<td>4.2</td>
<td>83.3</td>
<td>6.7</td>
<td>6.1</td>
<td>—</td>
</tr>
<tr>
<td>Latin America</td>
<td>27.6</td>
<td>58.1</td>
<td>7.7</td>
<td>6.5</td>
<td>0.1</td>
</tr>
<tr>
<td>Middle East</td>
<td>6.6</td>
<td>83.4</td>
<td>3.2</td>
<td>6.5</td>
<td>0.2</td>
</tr>
<tr>
<td>Centrally-planned</td>
<td>10.9</td>
<td>68.6</td>
<td>11.9</td>
<td>6.1</td>
<td>2.5</td>
</tr>
<tr>
<td>economies</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Developing countries</td>
<td>19.0</td>
<td>10.8</td>
<td>—</td>
<td>1.6</td>
<td></td>
</tr>
<tr>
<td>EEC</td>
<td>70.1</td>
<td></td>
<td>24.1</td>
<td>3.6</td>
<td>2.3</td>
</tr>
<tr>
<td>EFTA</td>
<td>36.8</td>
<td>37.9</td>
<td>20.9</td>
<td>3.8</td>
<td>0.6</td>
</tr>
<tr>
<td>Japan</td>
<td>19.8</td>
<td>51.8</td>
<td>24.1</td>
<td>4.2</td>
<td>0.1</td>
</tr>
<tr>
<td>North America</td>
<td>25.5</td>
<td>39.8</td>
<td>26.7</td>
<td>1.3</td>
<td>6.6</td>
</tr>
<tr>
<td>Oceania and South Africa</td>
<td>4.8</td>
<td>72.8</td>
<td>14.7</td>
<td>5.8</td>
<td>1.9</td>
</tr>
<tr>
<td>Western Europe</td>
<td>59.9</td>
<td>13.8</td>
<td>21.4</td>
<td>4.6</td>
<td>0.4</td>
</tr>
<tr>
<td>Total</td>
<td>100.0</td>
<td>64.4</td>
<td>22.1</td>
<td>11.6</td>
<td>1.9</td>
</tr>
</tbody>
</table>

* Excluding South Africa but including the African countries in the Middle East.

* Excluding mainland China, Japan, Mongolia, North Korea and North Viet-Nam.

* Including exports to the Netherlands West Indies.

* Including all the countries of the Middle East (both African and Asian).

* Excluding intra-regional trade between mainland China, Mongolia, North Korea and North Viet-Nam.

Table 62
Latin America: Exports to the European Economic Community, 1937-1938 to 1961
(In millions of dollars at current prices)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Temperate zone countries</td>
<td>290</td>
<td>440</td>
<td>333</td>
<td>376</td>
<td>374</td>
<td>409</td>
<td>471</td>
<td>457</td>
</tr>
<tr>
<td>Tropical zone countries</td>
<td>192</td>
<td>348</td>
<td>340</td>
<td>515</td>
<td>574</td>
<td>629</td>
<td>621</td>
<td>603</td>
</tr>
<tr>
<td>Countries exporting minerals and petroleum (excluding Venezuela)</td>
<td>77</td>
<td>67</td>
<td>69</td>
<td>114</td>
<td>182</td>
<td>237</td>
<td>285</td>
<td>296</td>
</tr>
<tr>
<td>Venezuela (petroleum)</td>
<td>25</td>
<td>41</td>
<td>50</td>
<td>57</td>
<td>162</td>
<td>137</td>
<td>137</td>
<td>174</td>
</tr>
<tr>
<td>Total</td>
<td>584</td>
<td>896</td>
<td>792</td>
<td>1062</td>
<td>1292</td>
<td>1412</td>
<td>1514</td>
<td>1545</td>
</tr>
</tbody>
</table>


In current prices, have increased steadily, as shown in table 62. However, two important points should be borne in mind in assessing the increase. The first is the change in the structure of this trade. If 1958, the year when the Common Market was established, is taken as the starting point, it is clear that a substantial part of the increase is for mineral-exporting countries (63 per cent), and that there is a corresponding lack of expansion in exports from countries that supply tropical agricultural products (an increment of only 5 per cent). This is one more indication of the effect of the discriminatory measures referred to earlier.

Chapter III
FUTURE PROSPECTS AND LINES OF ACTION

A. LATIN AMERICA’S FUTURE IMPORT NEEDS AND PROSPECTS IN RESPECT OF TRADITIONAL EXPORTS

422. In previous sections an attempt was made to define the characteristics of a problem, already widely known in general outline, that has severely restricted fulfilment of the Latin American peoples' desire for economic growth and better living conditions. Some basic facts have thus been brought to light, in particular the close relationship existing between foreign trade and the whole complex of Latin America's economic development, the unfavourable trends registered by such trade in the past and the factors responsible for its unsatisfactory behaviour. It would be as well now to project into the
future that combination of background data and experience in order to forecast the form the problem will presumably take unless various energetic and timely decisions are taken that will lead to a far-reaching revision of the conditions in which international trade is developing.

423. According to the estimates in chapter I of Latin America's import requirements in the next few years, and on the projections and hypotheses contained in that chapter, the area's import needs are likely to increase from $8,130 million in 1960 to $11,450 million in 1966 and to $14,170 million by 1970. These requirements will be hard to fulfill unless simultaneous action is taken in several fields, since satisfactory solutions are not likely to be found if the over-all problem is only tackled in part. This is due as much to the extent of the problem itself as to the time factor. For example, the strengthening of traditional export flows may depend largely on administrative measures and the diversification of markets, and results could consequently be expected within a relatively short space of time. On the other hand, the extension of the range of these exports by incorporating increasing quantities of manufactured and semi-manufactured goods—and the substantial expansion of trade within the region itself are factors whose results can be assessed only after a longer period of continuous effort.

424. Both these alternatives entail decisions, agreements and specific action—at the world, regional and national levels—the significance and scope of which can be evaluated only through a somewhat more detailed examination of the way in which Latin America could meet its future import requirements. It would be best, therefore, to begin with some considerations as to what Latin America may expect from its traditional trade flows in terms of commodities and markets if the existing conditions and patterns affecting them are maintained.

425. In view of the widely varying nature of specific situations, the problem should first be examined from the standpoint of particular commodities or groups of commodities. For this purpose, it might be sufficient to keep to the group of Latin American exports whose aggregate value in 1959-61 was over $6,200 million, or almost 80 per cent of total exports from the region. This group comprises coffee, cacao, bananas, cotton, sugar, fish meal, wheat, meat, maize, wool, linseed oil, petroleum and petroleum products, tin, copper, lead, zinc and iron ore.

(1) Coffee, cacao and bananas

426. The main traditional markets for Latin America's coffee, cacao and bananas are the United States, United Kingdom and EEC countries. The increased consumption of these three commodities in the United States after the Second World War was the factor that determined the improved position of the Latin American exporting countries concerned. In the past four or five years, however, consumption has tended to remain at a standstill because of the relatively high levels already attained. In addition, commodities such as coffee, and, above all, bananas, have a very low income-elasticity of demand.

427. Since the United States does not apply to these commodities customs duties or internal taxes that artificially limit demand, consumption is likely to increase only in terms of the country's population growth. Consequently, markets other than the United States must be sought if Latin American exports of these three important commodities are to expand more rapidly.

428. Prospects in other important markets are not too encouraging, however, unless radical changes are made in the restrictive measures in force (see chapter I). Although Latin America's share of the EEC's coffee imports increased rather more than Africa's it must be borne in mind that if the quantitative discrimination applied by France was also imposed by the other member countries of the Community, this would have a highly adverse effect on Latin American exports to those countries. If, on the other hand, the latter engage in discrimination solely through the medium of tariffs and at the agreed rate (9.6 per cent preference in favour of the associated States) for a brief period of time, Latin America could continue to share in their increased coffee consumption, to the same extent as it does today. Moreover, consumption could rise considerably if the heavy internal taxes in force in many countries were removed, an action which would benefit every exporting country in the world.

429. In so far as the United Kingdom market is concerned, Latin America's share, which is very small indeed, is unlikely to increase appreciably in the next few years as long as the Commonwealth continues to be given preferential treatment.

430. Besides these considerations on the prospects for increased coffee exports, mention should be made of the other factor determining coffee's foreign exchange earnings, namely, prices. The International Coffee Agreement, which came into force in 1962, appears to have had a positive effect on prices, but its future effectiveness will depend on the Latin American countries' compliance with the quotas allocated to them. In the meantime, despite the improvement registered of late, the deterioration in the terms of trade has already resulted in recent years in a very serious setback for the producing countries and may continue to be the principal adversely affecting coffee prospects.

431. As regards cacao, Latin America's export possibilities are even more restricted. Declining prices in the last few years have reduced producer's profits to levels that discourage production and Latin America has gradually lost its importance, in both absolute and relative terms, as a world supplier of cacao. By contrast, the preferences that have been enjoyed by some countries and those now enjoyed by the EEC associate countries have to a certain extent mitigated the effect of the drop in prices and given them sufficient incentive to continue to modernize production and to raise output by replanting and taking steps to control blight.

432. To sum up, the relative stagnation of the United States market and the effect of discriminatory practices by the United Kingdom and the EEC—which for bananas may mean a marked contraction
of the West German market—point to the conclusion that Latin America’s export prospects in respect of these tropical commodities are far from promising.

(2) Sugar and cotton

433. As pointed out in chapter II, the decline in world sugar production and the change in Cuba’s export markets have altered the whole situation with respect to this commodity. Prices, which before 1962 were much lower than in other years, doubled in 1963, while stocks fell sharply. Encouraged by the incentive of higher prices and the redistribution of Cuba’s quota in the United States market, the other Latin American producing countries increased their sugar output.

434. The United States Sugar Act, which has such important implications for Latin America, was amended in July 1962. By virtue of the amendment, the proportion of sugar requirements to be covered by domestic production was raised from 53.5 to 59.9 per cent, and the domestic contribution to increased consumption from 55 to 65 per cent.

435. Under the terms of the original Act, the major quota was allocated to Cuba. It is now reduced to nearly half, and its application has remained in abeyance pending the resumption of diplomatic relations between the two countries. The Philippines also had a large quota, which has been increased since Cuba’s quota was suspended. Peru, the Dominican Republic, Mexico, Nicaragua, Costa Rica, Haiti and Panama were all allocated quotas under the original Sugar Act, and these have now been increased. Colombia, Ecuador, Guatemala, El Salvador and Paraguay, in addition to other non-Latin American countries, are all eligible for quotas under the amended Act.

436. Imports subject to the quota system are paid for in the United States at the same price as that received by local producers whose production costs are higher. Accordingly, countries that are allocated quotas enjoy the advantage of being paid higher prices than those quoted on the world market when these happen to be lower than the local price in the United States, as has occurred up to 1963.

437. The amended Act introduces another new feature: the global quota. This quota, which, under normal consumption conditions, amounts to 1.4 million tons, will be open to all countries which are net sugar exporters and maintain diplomatic relations with the United States. Sugar imported under the global quota is subject to higher customs duties than those applied to country quotas and will be purchased at world prices.

438. Notwithstanding the fact that the new provisions of the United States Sugar Act represent a reduction in the quota assigned to Latin America (including Cuba) up to 1962, the short-term prospects for this commodity appear to be fairly good. High prices mean more income for the producers which, in turn, leads to greater output. This situation will continue until world sugar production again matches consumption as was the case before Cuba’s sugar exports changed in destination.

439. The cotton trade is one which encounters very few obstacles. Countries like Italy and France, which have maintained tariff or quantitative restrictions, are now abolishing them. Nevertheless, world trading conditions have not been too favourable of late, chiefly because of falling prices. Latin America—considered on an equal footing with the other international cotton producers—has rapidly increased its exports and in all probability this trend will continue in the future, notwithstanding the limitations imposed by sales of United States cotton through subsidies and special terms of payment under Public Law 480, and the low price levels registered in recent years.

(3) Wheat, maize and meat

440. Wheat export prospects for the next few years are not very encouraging. The high price supports fixed by the industrialized countries for domestic production make it possible to mechanize activities on an increasing scale and to extend the use of fertilizers and pesticides, all of which make for higher output per hectare. Income-elasticity of demand for this commodity is exceedingly low and sometimes even negative, which excludes any prospect of substantial increments in consumption in the developed countries. Furthermore, the United States and French policy of selling surpluses at subsidized prices, coupled with the various financing schemes applied to wheat sales, increasingly hamper wheat exports by countries which do not subsidize sales.

441. So far, Argentine wheat has maintained its sales position because it is much better than European wheat for bread making. Nevertheless, the competition offered by hard wheats from Canada and the United States, and Turkey’s intention of placing hard wheats in the European Common Market, also constitute a threat to its position.

442. As regards possibilities in other markets, wheat supplies from Argentina and Uruguay to the developing countries in Latin America or other areas have shrunk to insignificant proportions as a result of United States wheat sales under Public Law 480. The prospects that may be created by the present shortage of wheat in countries with centrally-planned economies are doubtful, firstly, because of competition from countries in a position to subsidize their production and finance their sales and, secondly, because of the uncertainty as to how long the countries with centrally-planned economies will continue to buy wheat, both for balance-of-payments reasons and because they may very well expand their own production.

443. On the other hand, conditions for maize are much better. The developed countries are following a less active policy in pursuit of self-sufficiency than in the case of wheat, their aim being to supply cheaper feed for domestic producers of meat (pork, beef and poultry). The United States is also pursuing a less aggressive surplus disposal policy on the world market, though subsidies and special financing terms are offered. But maize prices are very low and likely to remain so, since only if it is cheap can maize
replace other forage and maintain or increase its present volume of sales.

444. Prospects for meat exports to the United States are also favourable, provided that Argentina, Uruguay and Paraguay succeed, as Mexico has done, in eradicating foot-and-mouth disease, which hampers their access to the United States market. Prospects in Europe, on the other hand, do not seem to be promising. In fact, as long as the EEC countries maintain their policy of self-sufficiency in respect of agricultural commodities, the most that can be expected is the maintenance of the present volume of exports to those countries. The United Kingdom market—which represents over half Argentina's and Uruguay's combined market for beef—is unlikely to expand in the future; on the contrary, it may even contract because of the United Kingdom's policy of self-sufficiency and the fact that it may join the European Common Market.

445. Wool and linseed oil

446. Argentina is the main producer and exporter of linseed oil in the region. While increasingly less land is suitable for cultivation of temperate-zone commodities, being sown to wheat, larger areas are being sown to maize and flax. This redistribution of crops reflects the behaviour patterns of the different world commodity markets. Charges are levied on linseed oil in order to prevent its entry into the developed countries and thereby promote imports of the seed itself. The United States, moreover, offers competition in this commodity in the form of sales on non-commercial terms. Nevertheless, the fact that the terms are less severe than in the case of wheat is an inducement to devote more land to flax. In these circumstances, exports of linseed oil are expected to increase in the next few years.

447. Fish meal and iron ore are the only two important commodities which Latin America has succeeded in developing as new export lines during the past decade, the main beneficiaries being Peru and Chile.

448. Fish meal consumption has expanded considerably in recent years because of its use as feed for poultry and pigs. However, as world production has been outstripping consumption, certain fears may be entertained for the future evolution of prices.

449. In addition, imports are restricted in a number of countries. Thus, the tariff in the Federal Republic of Germany is 5 per cent, and in France 9 per cent. There is a discriminatory tariff of 10 per cent in the United Kingdom in favour of the Commonwealth and Ireland. Italy enforces a 9 per cent discriminatory tariff in favour of the EEC countries. The United States, on the other hand, applies no restrictions whatsoever. Although these discriminatory practices and restrictions hamper the expansion of Latin American exports, they are less intensive than those in force for other commodities. It is therefore expected that, with the aid of the natural fishing conditions and low production costs, particularly in Chile and Peru, exports of these two commodities will continue to expand in future years.

450. The export prospects for mineral ores and fuels, although they involve serious problems, are more encouraging. This is true, in the first place, of petroleum exports, since world consumption is expanding. As a result, prices, which had been showing signs of weakening, are becoming firmer again. However, exports of petroleum from Venezuela may find it more difficult to enter the United States market in future because of the restrictions resulting from the establishment in that country of an import quota for crude. Another unfavourable sign for Latin American exports is that the increase in domestic consumption in Colombia and Peru is greater than the increase in production, and the exportable surpluses of those countries are therefore shrinking. Exports from Mexico, on the other hand, are expanding.

451. As for copper, world prices continue to fluctuate, although they have risen somewhat recently owing largely to the expansion of economic activity in Europe. As the prices and export volumes of copper, lead and zinc are determined by the general economic activity of the developed countries, continued expansion in the EEC countries in the next few years may lead to more sales and stable prices.

452. World production of tin is lagging behind demand, which has led to higher prices and encouraged production. An increase in tin production in Bolivia can be expected in the next few years. However, the liquidation of the United States strategic tin reserves and of the buffer stock administered by the International Tin Council both constitute guarantees that funds will be available for buying tin if prices undergo another decline in the next few years. The rise in tin prices resulting from these factors has been so great that it may encourage the appearance of substitutes and threaten the potential market for tin. The most effective method of preserving the use of tin for all its present applications seems to be to increase the supply.

453. On the other hand, the rapid expansion in the production and exportation of iron ore from Latin America and other developing areas seems to be coming to an end, since the recent price falls may well mean that the market has reached saturation point. This view is strengthened by the discovery of new deposits in the developing areas, and the spread of new steel-making techniques in the developed countries, which permit the use of deposits that were formerly considered impossible to exploit on an economic basis.
454. Although consumption of lead and zinc is determined by the economic expansion of the large industrial countries, a study of recent trends in Latin American exports does not give any particular grounds for optimism as regards the prospects for these metals.

(7) Tentative projection of Latin American exports

455. Thus far the considerations set forth have related to the main products and groups of products of Latin America's traditional exports, and hence have been of a very general nature. The next step is to sum up all these facts, together with other supplementary data, in the form of a quantitative evaluation that will permit comparison of the export prospects with the total import requirements of the Latin American economies as described at the beginning of the present section.

456. Any projection of this type is attended by very great risks, since it involves recourse to criteria that are open to question, and reliance on a number of relatively subjective considerations. However, since the aim here is not to make forecasts, but to bring into sharp focus the nature and scale of Latin America's foreign trade problems, it seems justifiable to work out a reasonable hypothesis, dealing with high orders of magnitude, as to what the situation is likely to be if there are no significant changes in the conditions of world trade.

457. Strictly with this aim in mind, and subject to the above qualifications, a very general idea is put forward in table 63 of what Latin America's exports might be towards 1970, in present world trade conditions. According to these figures, which in many cases reflect a rather optimistic view, \(^a\) total Latin American exports will increase from nearly 38,000 million, the average for the three-year period 1959-61, to slightly over 81,000 million in 1970. It is hardly necessary to point out that this exiguous growth on the part of traditional exports is bound to aggravate the serious foreign trade problems that already confront Latin America, and completely rules out any hope, however modest, of maintaining a steady improvement in the region's per capita income levels.

### Table 63
Latin America: Projection of exports to 1970  
(In millions of dollars at 1959-61 prices)

<table>
<thead>
<tr>
<th>Product</th>
<th>1959-61</th>
<th>1970</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tropical products</td>
<td>2 245</td>
<td>2 780</td>
</tr>
<tr>
<td>Temperate-zone products</td>
<td>8 65</td>
<td>1 060</td>
</tr>
<tr>
<td>Mineral ores and fuels</td>
<td>3 080</td>
<td>4 025</td>
</tr>
<tr>
<td>Other products</td>
<td>1 767</td>
<td>2 265</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>7 957</td>
<td>10 160</td>
</tr>
</tbody>
</table>

\(^a\) Coffee, cacao, bananas, cotton and sugar.
\(^b\) Wheat, maize, meat, wool and tinned oil.
\(^c\) Copper, lead, zinc, iron ore, tin, and petroleum and petroleum products.
\(^d\) Excluding Cuba, because of the lack of data.

#### B. The possibility of diversifying exports

458. Even with the best possible world market conditions, Latin America can hardly expect that expansion of its traditional trade flows alone will increase its import capacity sufficiently to meet the requirements of its economic development. It is therefore essential that certain changes be made in the foreign trade policy of the main industrial countries, and that new markets be opened up, sufficient to remedy the situation, at least temporarily, by providing opportunities of selling a larger volume of primary commodities abroad at better prices. These are, of course, merely the basic requirements for fending off a crisis of which signs are already appearing in Latin America, and which might reach uncontrollable proportions in the next few years. However, despite the importance of such measures, they cannot provide the basis for a permanent solution of the problem, which calls for new trade structures with greater diversification of Latin American exports, providing for the inclusion of manufactured and semi-manufactured products.

459. It should be stressed that this is a matter not of alternative but of complementary solutions. Progressive diversification of exports is a process that urgently needs to be undertaken, but that cannot be expected to yield significant results within a short period. Meanwhile primary commodity exports will have an essential part to play in this transition to new trade structures, under the stimulus of new markets and the expansion of traditional markets through the removal of the obstacles, restrictions and discriminations that exist at present. This removal will, in turn alleviate immediate difficulties, but will amount to no more than the postponement of a final solution, since the very nature of primary commodities inevitably determines a growth rate slower than that of the import requirements of the developing economies.

460. These considerations point to the need for a fairly detailed study of the possibility that Latin America, and the other developing areas, will succeed in maintaining a substantial flow of exports of manufactured and semi-manufactured products.\(^e\)
461. One very important point is that the continuation and further expansion of industrialization in Latin America are required not only as a means of overcoming foreign trade problems, but also as essential elements in solving other basic development problems in the region. One of these is the efficient use of manpower.

462. The present labour force in Latin America is estimated at 70 million, and the estimated annual average growth rate in this labour force is 3 per cent. Hence, it is necessary to create over 2.1 million jobs a year in Latin America. The magnitude of this requirement can be illustrated by comparing it, for example, with the annual increase in the economically active population of the United States, which is less than 1.6 million. It can easily be imagined how great an effort is needed to effect the requisite increases in the domestic product and in the investment and export coefficients if this addition to the labour force is to be absorbed in gainful employment.

463. In the past, Latin America has not been able to meet these requirements, and the result has been a distortion of the structure of employment through a disproportionate share of labour going to the services sector, including some services of scant social value. In these circumstances the industrial growth rate of 6 per cent a year has been too low to solve the employment problem. The rate of capital formation in industry has been insufficient to speed up this growth rate, and, what is more, the very technology used in the generally rapidly developing industrial branches contributes to this result, since it is often governed by labour-saving criteria which, while appropriate for the industrialized countries, are much less justifiable when transplanted to developing areas.

464. This is not the place for a detailed consideration of such problems; they are mentioned here merely to make it quite clear that the industrialization of the Latin American economies is a vital over-all target, and does not relate solely to questions of foreign trade.

465. Recognition of this target is not enough; it is important to explore the practical possibilities of attaining it. For this purpose certain basic points must be examined that are mainly concerned with the possible contribution of Latin American manufactures to the markets of the industrial countries, and the region's ability to develop a regular flow of such exports.

(1) The demand for manufactures in the industrial countries

466. As pointed out in a previous section, the figures involved have a very different impact in the industrial countries and in the developing areas. This becomes particularly clear when the question arises of the prospects for the developing areas of supplying certain manufactured or semi-manufactured products to the industrial countries.

467. As the mere mention of this possibility is enough to arouse resistance, it must be placed in its true perspective from the outset. In recent times Latin American exports of manufactured products of all types (including traditional products exported after a very slight degree of processing, and trade between the Latin American countries themselves) has been in the neighbourhood of $2,000 million. At the same time, purchases of durable and non-durable goods in 1960 by consumers in the United States alone amounted to about $250,000 million; tobacco and motor cars themselves accounted for $7,000 million, which is ten times the value of all manufactures imported by the United States from Latin America.

468. The combined gross domestic product of the industrial countries was valued in 1961 at $826,000 million, and their total imports of manufactured goods from all sources was $47,000 million, or 5.8 per cent of the value of their gross domestic product. Imports of manufactures from Latin America amounted to only $1,500 million (excluding refined sugar), a coefficient of only 0.17 per cent of the gross domestic product.\(^{30}\)

469. Furthermore, the question is not merely one of the present level of the product and demand for manufactured goods on the part of the industrial countries, but also of the growth rate of these two variables. Strictly by way of illustration, it may be estimated that the product could amount to some $1,175,000 million in 1970, and the supply of manufactures to $660,000 million.\(^{31}\)

470. Thus, according to the above figures, if Latin America were to supply these imports of manufactured products on a scale sufficient to overcome its potential trade deficit, that is, by exporting additional manufactures to the value of approximately $4,000 million, which would provide an effective solution of the region's problems in the absence of other factors, its contribution would represent, up to 1970, no more than 1 per cent of the total supply of manufactures to the industrial countries.

471. These are the terms in which the problem can be stated. The opening of the industrial country markets to manufactures from the developing areas,\(^{30}\) The gross domestic product includes other sectors, as well as manufactures (such as agriculture, mining, construction, services, etc.). In addition, the figures are given in terms of values added, and are therefore not strictly comparable with trade figures. If the manufacturing sector only is considered, and if production is expressed in terms of gross value (to permit a most accurate comparison with imports) the total supplies of manufactures available for 1961 in the industrial countries (either for home consumption or for export) can be estimated at $430,000 million, compared with $47,000 million for manufactured goods imported from all sources and $1,500 million for manufactures from Latin America.\(^{31}\) This is a hypothetical calculation based on the assumption that growth rates similar to those for the fifties will be maintained (those were 5 per cent for Europe, 3 per cent for North America and a downward adjusted figure of 8 per cent for Japan), with varying income-elasticities of demand according to the type of product, and a slightly increased share of imports in the supply of manufactured products, an assumption which is reasonable in view of the recent pattern of production and trade in the large industrial countries.\(^{32}\)

\(^{32}\) The gross domestic product includes other sectors, as well as manufactures (such as agriculture, mining, construction, services, etc.). Import figures are given in terms of values added, and are therefore not strictly comparable with trade figures. If the manufacturing sector only is considered, and if production is expressed in terms of gross value (to permit a most accurate comparison with imports) the total supplies of manufactures available for 1961 in the industrial countries (either for home consumption or for export) can be estimated at $430,000 million, compared with $47,000 million for manufactured goods imported from all sources and $1,500 million for manufactures from Latin America.

\(^{31}\) This is a hypothetical calculation based on the assumption that growth rates similar to those for the fifties will be maintained (those were 5 per cent for Europe, 3 per cent for North America and a downward adjusted figure of 8 per cent for Japan), with varying income-elasticities of demand according to the type of product, and a slightly increased share of imports in the supply of manufactured products, an assumption which is reasonable in view of the recent pattern of production and trade in the large industrial countries.
472. However, matters cannot simply be reduced to global ratios such as these. Although manufactures from under-developed areas would constitute only an insignificant proportion of total supplies in the markets of the industrialized countries, their competition might provoke a difficult situation as regards particular industries in the industrialized countries, whenever there was heavy concentration on a few products. Nevertheless, the problem is basically one of methods and safeguards that will not be difficult to work out once the essential facts have been identified.

(2) Latin America's ability to export manufactures

473. Access to markets—with everything that this implies in terms of abolition of restrictions and of the facilities and preferences that the large industrial countries would have to offer with respect to manufactures from the developing countries, thus giving a new meaning to the principle of reciprocity—is, though essential, only half the problem. The other is how far the Latin American economies are capable of taking advantage of any such concessions that the industrial countries may grant.

474. The existing deficiencies of Latin American industry—generally high production costs, transport problems, lack of credit, distribution and marketing difficulties, etc.—throw some doubt on this capacity. Consequently the question needs to be probed more deeply to determine how far these problems are temporary difficulties that can be overcome by applying the correct policy, and what long-term factors exist that might justify persistent efforts to develop a regular flow of exports of manufactures.

475. It must first be borne in mind that significant progress has already been made as regards certain export flows that are at a competitive advantage on the world market. A general reference to this aspect, by no means exhaustive, will give an idea of the variety of products exported, while indicating that at present the figures involved are low.32 Food products include (in millions of dollars): tinned meat ($80), canned fish (11.7), butter (6), tinned fruit (6.2), coffee extracts (7.2), tinned vegetables (4.8), cheese (1.2), fruit juices (2.4), oils and fats (126.2) and fish meal (51.3). Exports of petroleum to overseas markets amounted to about $560 million. The export value of food products in respect of which Latin America is at a competitive advantage.

476. In these and many other cases, although the total volume is very small, the exports concerned are of products in respect of which Latin America is at a competitive advantage.33 Consequently analysis of the technical and economic aspects of these production lines, with a view to discovering the factors that determine the competitive advantages, will provide some grounds for assessing future prospects of expanding and diversifying these exports. This will make it possible by analogy to deduce the range of manufactured products that will offer prospects similar to those provided by the products now being exported. Although the analysis required is of a complex type beyond the scope of the present study, and provides little ground for generalizations, some observations in this connexion are called for here, on the basis of a comparison between the figures for manufactured products exported thus far by certain Latin American countries and the figures for corresponding products produced by the United States, with special emphasis on the main components of the final price.

477. The results of this comparison are given in table 64, which shows that in all cases the component wages and salaries in the price of industrial products now being exported by Latin America is lower than in the United States, despite the higher labour intensity of industrial production in Latin America and its lower levels of productivity. This is due to the higher wages paid in an industrial country, which more than offset the above two factors, and thus the wage com-

32 These are the values of exports to the world market in 1961, excluding trade between the Latin American countries (see again table 58).

33 A comparison of the price in the United States and in some Latin American countries, where this was possible, indicated that the latter price was lower. This is true of refined sunflower and cottonseed oil, tinned tomatoes, fresh cheese, crystallized insulin, tinned beef tongue, tinned beef, cotton grey goods, leather footwear, wood pulp, tinned tuna fish and linseed oil.
The variations in the value of this price component in the different countries is due to the type of goods exported and the consequent disparities in the labour intensity of production. In Argentina, where exports of manufactured products are based on agricultural inputs, the wage and salary component is lowest, but not much lower than in the United States. In this case the activities concerned involve the use of similar technologies in both countries, based on a high degree of mechanization. The same is true with respect to Peru, although here the governing factor is the predominance of manufactured exports based on fish—mainly fish meal—petroleum products and basic items of non-ferrous metals, whose production is generally highly mechanized and based on wages lower than those paid in the United States. In Chile, Colombia and Mexico, on the other hand, the wage component is much lower than in the United States. The activities involved are all highly labour-intensive and pay very low wages.

479. The raw materials component is generally lower in Latin America than in the industrial countries, or at least than in the United States. Two factors account for this: the first is that many of the manufactured goods exported are produced on the basis of inputs of domestic origin, as a direct or indirect consequence of the abundance of rich natural resources which place Latin America at a distinct advantage because they can be exploited at low cost. Secondly, the inputs concerned also include a labour component, which ranges from 20 to 28 per cent of the final value of the export product. Thus the total direct and indirect wage component in the final price is over 40 per cent, compared with over 55 per cent for similar products in the United States. This means that the labour cost component in the final price, including the wages and salaries involved in all the inputs is substantially lower for the Latin American countries, despite the higher labour productivity (output per worker) achieved in the industrial countries. Detailed figures for individual countries and products are given in table 65.

480. Table 65 shows that the cost component for raw materials is lower in Latin America than in the United States, with few exceptions: these are pharmaceutical products in Argentina, Chile and Colombia, non-electrical machinery, paints and varnishes, and cast iron in Mexico, and leather manufactures in Colombia and Peru.

481. The price-structure analysis shows that the energy used (electricity and fuels) is always higher in the Latin American countries considered here, despite the lower general level of mechanization (see again

<table>
<thead>
<tr>
<th>Product</th>
<th>Argentina</th>
<th>Chile</th>
<th>Mexico</th>
<th>Peru</th>
<th>Colombia</th>
<th>United States</th>
</tr>
</thead>
<tbody>
<tr>
<td>Edible oils</td>
<td>12.3</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>4.5</td>
</tr>
<tr>
<td>Canned and processed meat</td>
<td>10.1</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>13.2</td>
</tr>
<tr>
<td>Canned fruit and vegetables</td>
<td>11.8</td>
<td>10.7</td>
<td>16.7</td>
<td>-</td>
<td>-</td>
<td>15.9</td>
</tr>
<tr>
<td>Milk products</td>
<td>6.7</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>7.3</td>
</tr>
<tr>
<td>Vegetable oils</td>
<td>6.8</td>
<td>-</td>
<td>7.0</td>
<td>9.9</td>
<td>-</td>
<td>13.7</td>
</tr>
<tr>
<td>Pharmaceutical products</td>
<td>19.0</td>
<td>13.3</td>
<td>-</td>
<td>-</td>
<td>13.1</td>
<td>21.9</td>
</tr>
<tr>
<td>Chemical products and drugs</td>
<td>13.8</td>
<td>13.0</td>
<td>11.4</td>
<td>15.0</td>
<td>8.9</td>
<td>16.6</td>
</tr>
<tr>
<td>Canned fish</td>
<td>-</td>
<td>18.8</td>
<td>16.9</td>
<td>10.6</td>
<td>-</td>
<td>19.5</td>
</tr>
<tr>
<td>Paper and pulp</td>
<td>-</td>
<td>9.4</td>
<td>11.3</td>
<td>-</td>
<td>-</td>
<td>17.1</td>
</tr>
<tr>
<td>Iron and steel products</td>
<td>-</td>
<td>12.3</td>
<td>11.4</td>
<td>-</td>
<td>-</td>
<td>22.3</td>
</tr>
<tr>
<td>Non-ferrous metal products</td>
<td>-</td>
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<td>25.6</td>
<td>-</td>
<td>-</td>
<td>26.3</td>
</tr>
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<td>21.6</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>30.2</td>
</tr>
<tr>
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<td>-</td>
<td>23.3</td>
<td>18.5</td>
<td>-</td>
<td>-</td>
<td>27.5</td>
</tr>
<tr>
<td>Electrical machinery</td>
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<td>18.9</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>24.5</td>
</tr>
<tr>
<td>Paints and varnishes</td>
<td>-</td>
<td>10.9</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>17.7</td>
</tr>
<tr>
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<td>24.3</td>
<td>16.7</td>
<td>-</td>
<td>30.1</td>
</tr>
<tr>
<td>Felt products</td>
<td>-</td>
<td>18.9</td>
<td>-</td>
<td>16.4</td>
<td>-</td>
<td>28.1</td>
</tr>
<tr>
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<td>-</td>
<td>24.5</td>
<td>20.8</td>
<td>16.7</td>
<td>-</td>
<td>28.1</td>
</tr>
<tr>
<td>Henequen and jute yarn and fabrics</td>
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<td>-</td>
<td>-</td>
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<td>23.4</td>
</tr>
<tr>
<td>Glass</td>
<td>-</td>
<td>19.3</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>35.8</td>
</tr>
<tr>
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<td>5.0</td>
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</tr>
<tr>
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<td>29.5</td>
<td>-</td>
<td>-</td>
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</tr>
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<td>41.4</td>
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<tr>
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<td>-</td>
<td>25.6</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>37.5</td>
</tr>
<tr>
<td>Miscellaneous metal products</td>
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<td>18.1</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>29.8</td>
</tr>
<tr>
<td>Fish meal</td>
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<td>6.4</td>
<td>-</td>
<td>-</td>
<td>-</td>
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<tr>
<td>Products of the basic non-ferrous metal industries</td>
<td>-</td>
<td>-</td>
<td>2.2</td>
<td>-</td>
<td>-</td>
<td>8.5</td>
</tr>
</tbody>
</table>

Source: As for table 64.
There may well be two different kinds of reasons for this: the effect of the high capital density needed for the production and supply of energy, which leads to a higher price level in Latin America, and the different policies as regards organization, production and distribution followed in the countries studied. Be that as it may, the greatest differences in comparison with the United States are found in Argentina and Peru, and the smallest in Chile and Mexico.

483. However that may be, the high proportion of these other cost components does not offset the advantages, as regards the price of the manufactured goods at present exported by Latin America, of low wage levels and the existence of natural resources exploited at low cost.\textsuperscript{84} As the advantage of lower wages may be cancelled out by even greater differences in productivity levels, it is appropriate to consider these levels, in terms of value added per worker.

484. In table 67, the first column gives the average remuneration paid in Argentina, Chile, Colombia, Mexico and Peru for the group of industrial activities that provide exports, side by side with the corresponding figure for the United States. There is an extraordinary difference between the Latin American countries listed and the United States. It is undoubtedly largely a reflection of the difference that also exists in productivity levels, which means that in the United States the labour force can be given a larger proportion in the functional distribution of income without distorting the cost of production and the final price.

485. The second column of the table shows conclusively the enormous difference between the product per worker in the export industries in Latin America and the level in the United States. However, these differences are much more marked in terms of average salary than of product per worker, and consequently it is not surprising that the third column shows that in the United States one wage unit produces less value added than in any of the Latin American countries considered. Thus although labour productivity is lower in Latin America, this shortcoming is offset by the low average salary. This is, of course, a very general conclusion, since there are some enterprises and activities in Latin America

<table>
<thead>
<tr>
<th>Product</th>
<th>Argentina</th>
<th>Chile</th>
<th>Mexico</th>
<th>Peru</th>
<th>Colombia</th>
<th>United States</th>
</tr>
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<tr>
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<td>60.2</td>
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<td>-</td>
<td>81.2</td>
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<td>-</td>
<td>-</td>
<td>-</td>
<td>76.7</td>
</tr>
<tr>
<td>Canned fruit and vegetables</td>
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<td>61.5</td>
<td>32.4</td>
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<td>-</td>
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<td>Milk products</td>
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<td>-</td>
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<td>80.2</td>
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<td>Vegetable oils</td>
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<td>37.9</td>
<td>-</td>
<td>29.3</td>
</tr>
<tr>
<td>Chemical products and drugs</td>
<td>46.4</td>
<td>47.1</td>
<td>39.6</td>
<td>43.3</td>
<td>45.5</td>
<td>50.7</td>
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<tr>
<td>Canned fish</td>
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<td>49.4</td>
<td>22.1</td>
<td>54.8</td>
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<td>70.5</td>
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<tr>
<td>Paper and pulp</td>
<td>-</td>
<td>60.4</td>
<td>48.4</td>
<td>-</td>
<td>-</td>
<td>62.3</td>
</tr>
<tr>
<td>Iron and steel products</td>
<td>-</td>
<td>50.8</td>
<td>43.2</td>
<td>-</td>
<td>-</td>
<td>61.1</td>
</tr>
<tr>
<td>Non-ferrous metal products</td>
<td>-</td>
<td>47.0</td>
<td>47.3</td>
<td>-</td>
<td>-</td>
<td>68.2</td>
</tr>
<tr>
<td>Metal products, worked</td>
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<td>45.8</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>60.5</td>
</tr>
<tr>
<td>Non-electrical machinery</td>
<td>-</td>
<td>43.8</td>
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<tr>
<td>Electrical machinery</td>
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<td>39.8</td>
<td>44.0</td>
<td>-</td>
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<td>Paints and varnishes</td>
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<td>34.9</td>
<td>-</td>
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<td>57.0</td>
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<td>Leather manufactures</td>
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<td>58.1</td>
<td>53.0</td>
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<td>Felt products</td>
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<td>Cotton yarn and fabrics</td>
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<td>44.5</td>
<td>43.8</td>
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<td>59.6</td>
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<tr>
<td>Henequen and jute yarn and fabrics</td>
<td>-</td>
<td>59.2</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>68.4</td>
</tr>
<tr>
<td>Glass</td>
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<td>-</td>
<td>-</td>
<td>-</td>
<td>31.9</td>
</tr>
<tr>
<td>Petroleum products</td>
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<td>54.6</td>
<td>78.1</td>
<td>72.1</td>
<td>-</td>
<td>83.8</td>
</tr>
<tr>
<td>Footwear</td>
<td>-</td>
<td>48.4</td>
<td>59.7</td>
<td>-</td>
<td>-</td>
<td>64.6</td>
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<tr>
<td>Iron and steel castings</td>
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<td>45.6</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>37.3</td>
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<tr>
<td>Non-ferrous metal castings</td>
<td>-</td>
<td>42.8</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>45.6</td>
</tr>
<tr>
<td>Miscellaneous metal products</td>
<td>-</td>
<td>46.7</td>
<td>-</td>
<td>-</td>
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<td>49.3</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>61.1</td>
</tr>
<tr>
<td>Products of the basic non-ferrous metal industries</td>
<td>-</td>
<td>39.3</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>41.4</td>
</tr>
</tbody>
</table>

Source: As for table 64.

\textsuperscript{84} Moreover, it is quite possible that entrepreneurs would be willing to take smaller profits in order to compete on a broader scale in the external market.
TABLE 67
Average annual wage and value added, per worker, for the group
of manufactured export products, for selected Latin American
countries

| Country       | Annual wages and salaries per worker* | Value added per worker* | Ratio of wages and salaries to value added*
|--------------|---------------------------------------|-------------------------|------------------------------------------
| Argentina    | 935                                   | 2 486                   | 2.70                                     |
| United States | 3 786                                 | 7 083                   | 1.87                                     |
| Chile        | 671                                   | 2 474                   | 3.69                                     |
| United States | 4 335                                 | 9 085                   | 2.10                                     |
| Colombia     | 712                                   | 2 671                   | 3.75                                     |
| United States | 3 469                                 | 7 024                   | 2.03                                     |
| Mexico       | 461                                   | 997                     | 2.17                                     |
| United States | 4 140                                 | 8 190                   | 1.96                                     |
| Peru         | 635                                   | 2 237                   | 3.53                                     |
| United States | 3 700                                 | 7 305                   | 1.97                                     |

Source: As for table 64.


in which the average productivity is close to the standards found in the developed countries.

486. In brief, to judge by the technical and economic features of the production function of these manufactures, there is no doubt that Latin America, given certain conditions, could generally compete abroad in selling all those products that require intensive use of labour or in which inputs of raw materials and intermediate goods are high and can be obtained directly or indirectly from Latin America’s rich natural resources.

487. It may well be that natural resources alone will not result in any marked advantage if they cannot be developed at low cost. Resources similar to those of Latin America in type and quality are to be found in various parts of the globe. However, because of the scarcity and high cost of a particular factor needed for their exploitation, or because of distance from the centres of production and consumption and transport problems, etc., exploitation may be more economic in some areas than in others.

488. The analysis of Latin America’s industrial exports shows that in many cases low-cost exploitation of a natural resource is due not only to high quality of the resource, but also to the degree of labour intensity needed for exploitation (agriculture or fishing, for example). To simplify the problem, it can be stated that the prime advantage may derive from the direct and indirect labour content of many of the products now being exported.

489. This conclusion fits in with Latin America’s need to solve its two main problems, the balance of payments, and the level and structure of employment. As to the first, one can point to the larger net balance of foreign currency brought in by the type of export in question, mainly as a result of its low import content. As to the second, the high labour content of such exports will lead to additional demand for industrial manpower, which will undoubtedly bring about a different structure of employment and establish better wage levels.

490. But although this is the result of analysing the products actually exported, it can be seen that such products also include a number of items of a complex type calling not only for a substantial proportion of the capital factor but also for an advanced type of production technique. It must therefore be found out what circumstances have enabled this type of manufacture (for example machinery, motors, metal products, more or less complex organic and inorganic chemicals, wood pulp, etc.) to compete on the world market.

491. Firstly, it should be stressed that the expressions “high capital-intensity product” and “high labour-intensity product” are relative, since any single item can generally, within certain technical limits, be produced by different combinations of factors. Thus certain products generally defined as high capital-intensity products (lathes of a certain level of complexity, pumps and motors) are produced in Latin America on a much less capital-intensive basis than in Europe or the United States, but at lower cost.

492. Secondly, the size of the market covered by one or two enterprises has in some cases led to the installation of production units sufficiently large to permit of economies of scale, with the consequent benefit not only to the average cost but also to the capital intensity per unit of product and per worker; this is true, for example, of certain chemicals, steel tubes, etc. (see illustrative examples in table 68).

493. Lastly, the high capital-intensive lines that make use of the Latin American advantages of low-cost domestic inputs and existing national resources were originally established on a competitive basis. The activities concerned are usually carried out by foreign companies that supply the capital and technical know-how from abroad and compete on the world market in accordance with their own international trade policy.

494. These and other favourable circumstances will enable Latin America to compete in the future, too, in certain sectors defined as having a high capital intensity, despite the handicap of the high price of capital (high profits, interest and depreciation charges) and all the surcharges on import costs to which, because of balance-of-payments problems, imports of capital goods are often subject.

495. From what has been said above it can be inferred which are the main industrial sectors for which future export prospects are promising. These may provisionally be summarized as (1) wood products, (2) leather and footwear, (3) cotton, wool and hard-fibre textiles, (4) processed, prepared, tinned and similar foods, (5) machinery produced in short series, (6) metal products, (7) pulp and paper, (8) petrochemicals, and (9) miscellaneous chemicals based on abundant natural resources such as those used in organotherapy, etc.

496. If such exports are to be effected and attain significant levels in Latin America’s foreign trade,
not only must the international problems facing industry be solved first, but some kind of preferential treatment must be obtained in the potential importing markets. In many cases the industries involved are at an embryo stage, and consequently need specific conditions if they are to develop efficiently from an economic standpoint, since they will otherwise be at a competitive disadvantage compared with older-established industries that have already attained a sufficient economic scale and broad experience in the world market. Furthermore the list of products given above, and the order in which they appear, which are based on a theoretical and preliminary study of the prospects in the various sectors, may well change considerably in practice, depending upon internal and external developments.

497. The broad range of products that could be exported by the Latin American countries as a whole includes not only those produced on the basis of a particular factor that is cheap and abundant, but also complex articles involving a high level of technology and intensive use of capital. Consequently from the standpoint of the economicity of production it is not advisable to concentrate interest on this or that type of product. On the contrary, future prospects should be considered in terms of the wide range of items given above or of a similar variety.

(3) Some shortcomings and obstacles

498. Latin America has the requisite basic conditions to compete advantageously in international trade in certain types of manufactures, but whether or not it will turn them to account will depend in large measure on the comprehension met with in the industrialized centres in the way of removing obstacles and deciding what preferences may be necessary within the new structures international trade is tending to assume. The materialization of such possibilities will also depend on the efforts made to surmount shortcomings and obstacles of a different nature, some inherent in Latin America itself, and others related to the broader machinery of international co-operation.

499. Without any wish to enter into systematic analysis, some illustrative examples should be given. First, there are the problems deriving from shortage of capital. To the high cost and inefficient channelling of capital must be added problems stemming from the technology applied in the dynamic capital-intensive industries and the existence of considerable idle capacity in many plants, mainly the largest and most capital-intensive.

500. With respect to labour, vigorous attempts must be made to improve techniques and training facilities in order to bridge the huge gap between output in this region and in the industrialized countries. Otherwise, the wage increase resulting from any attempt to redistribute income and from the very expansion of labour demand would offset the comparative advantages of Latin America’s present wage-productivity ratio.

501. An adverse aspect of existing conditions for industrial development is the generally unsatisfactory situation as regards the production and supply of energy. This affects not only specific industries—such as those based on electrolysis—but industry as a whole, sometimes because of the high rates charged and at others because of scanty and irregular supplies.

502. More important, perhaps, than the problems mentioned so far is the lack of competition between manufacturing industries in Latin America, deriving partly from the size of the market, often too small for more than one or two enterprises, and partly from tariff or quantitative protection which is often tantamount to an embargo on imports. These two factors have frequently been responsible for the establishment of industries which are inadequate both from the standpoint of output and of product quality. Moreover, together with the almost complete absence of industrial development programming at the national level, they have been responsible for the initiation of import substitution, which was made necessary by the difficult balance-of-payments situation, on a far from competitive basis. From the viewpoint of the possibility and desirability of exporting manufactured goods, they have discouraged rational efforts to compete overseas. In other words, entrepreneurial decisions have naturally been directed towards profit making in a safe and protected domestic market rather than towards an uncertain overseas market in which competition must be met under the conditions already mentioned.

503. Export trade channels are in general at an incipient stage—except for some traditional products—and credit facilities for marketing are practically non-existent. Hence, if manufactures are to be exported, it is of fundamental important to organize, shape and develop those channels together with the necessary export credit and international financial relations associated with that credit.

504. Lastly, to mention one more of the many other basic conditions, technological and market research ought to be greatly intensified in order to
already mentioned, i.e., expansion of traditional trade
American manufactured goods into line with the
tribute substantially—in the short and long run—to
cases have undoubted potentialities for more active
flows of manufactured goods—is the geographical
and diversification of exports by means of new export
requirements of possible markets.

505. The third factor that might help to overcome
Latin America's foreign trade problems—besides those
already mentioned, i.e., expansion of traditional trade
and diversification of exports by means of new export
flows of manufactured goods—is the geographical
expansion of markets.

506. Previous sections have shown clearly the high
proportion of Latin America's foreign trade with the
western industrialized countries and the low level of
trade within the region itself and with the centrally-
planned economies and other developing areas. It is
not difficult, however, to perceive that the three last
cases have undoubted potentialities for more active
trade which, if turned to good account, could con-
tribute substantially—in the short and long run—to
the more rapid growth of Latin American exports,
and at the same time facilitate their diversification.

507. These prospects should therefore be examined
at greater length and an evaluation, however general,
made of their magnitude and importance.

(1) Latin America—regional integration and
foreign trade

508. Increased intra-regional trade appears to be
one of the most obvious and important ways of ex-
panding Latin America's foreign trade, particularly
in view of its present low level: barely 7 per cent of the
region's total exports in 1961.

509. In the past, conditions have not been too
favourable for inter-Latin American trade, because
of the limited industrial development of the different
economies, whose basic resources are in general
competitive rather than supplementary and whose
industrialization process has been directed mainly
towards import substitution in the individual coun-
tries. The process itself later set the limits of the
replacement policy, in particular once the simpler
replacements from the standpoint of technological
requirements, capital intensity and economies of scale
had been exhausted. The growing difficulties of carry-
ing substitution beyond the first stage that is con-
cerned solely with domestic markets, combined with
the adverse foreign trade trends, served to emphasize
the need for regional schemes that would facilitate
the essential reorientation of the industrialization
process and at the same time enable full use to be made
of other advantages of specialization, including those
related to primary commodities.

510. At the present time, not only is there a
sufficiently widespread understanding of the problem,
but many of the necessary policy decisions have been
adopted and several of the instruments needed to
stimulate the regional integration process have been
established. The General Treaty on Central American
Economic Integration and the Latin American Free-
Trade Association are both fully operative and,
although many practical difficulties still subsist, are
beginning to have results. In addition, it has been
decided to strengthen those instruments and amplify
their objectives with the ultimate purpose of arriving
at an effective Latin American common market.

511. The Latin American countries therefore
attach supreme importance to the aim of integration
as a means of creating more favourable conditions
for the growth of their economies and of remedying
the traditional inadequacy of their external sector.

512. The relationship between these efforts to
attain regional integration and Latin America's trade
with other areas is also probably quite clear. If the
restrictive and discriminatory conditions of interna-
tional trade persist or are accentuated, the extension of
integration would have to come about through an
attempt on the part of Latin America to increase its
self-sufficiency and thus find within its own boundaries
and at any cost the opportunities that its trade with the
rest of the world does not provide. This is not a
desirable solution. From the Latin American stand-
point, regional integration does not represent an
alternative to more active foreign trade; on the con-
trary, it ought to be an instrument whereby that trade
could be enhanced with the consequent benefits for
Latin America as well as the general benefits that
would accrue from more intensive world trade.

513 In fact, as progress is made in the attempt to
achieve integration the growth rate of the regional
economies will be stepped up, and their needs and
possibilities in respect of imports from the rest of the
world will be correspondingly greater. Progress to-
wards consolidation of a Latin American common
market will, in turn, facilitate readaptation of the
region's structure of production, particularly in the
industrial sector, and will better equip these countries
to participate in a new international trade structure.
The wider dimensions of the whole regional market
will be sufficient impetus for the installation of larger
plants capable of taking advantage of the economies
of scale and producing at lower costs than those
obtaining at present in a large part of the region's
manufacturing activities. Similarly, the greater com-
petition in local markets resulting from progressive
liberalization of trade between the member countries
will encourage attempts to rationalize production and
to improve the quality, standardization, and so forth,
of industrial products.

514. Nevertheless, the difficulties of accomplishing
all this will loom very large if Latin America is forced
to withdraw into its shell and is unable to reap
sufficient benefit from the undoubted advantages
of trade with the industrialized countries, which are in a
better position to supply much of the machinery
and equipment and, in general, the more complex
and more highly technical manufactures. Thus, the
aim and end of the efforts to attain regional integration
in Latin America are not the reduction of imports from
outside the region but, on the contrary, a steady
increase in such imports, marked by progressive
changes in their composition.

515. Such are the terms in which the problem is
expressed. The progressive integration of the Latin
American economies is inevitable, but the course it
takes will depend on decisions taken at the world
level concerning the conditions and possibilities offered by the mainstreams of world trade in future.

(2) Prospects of trade with the centrally-planned economies

516. The countries with centrally-planned economies hold out great possibilities for increased trade with the developing countries, given their level of development, the size of their population and, above all, the fact that hardly any use has been made of existing trade possibilities as yet. However, nothing can actually be achieved unless both sides are resolved to examine with complete impartiality the difficulties that have arisen in the past and try to overcome them. These difficulties primarily stem from the relative self-sufficiency on which development of the countries with centrally-planned economies has been based, a policy which has been relaxed of late. Other factors limiting trade possibilities relate more particularly to the conditions of payment applied to transactions, the criteria for establishing the prices of the goods traded, and such aspects as the suitability of industrial equipment for the needs of the Latin American countries and the lack of agents or representatives.

517. Even though the total volume of trade engaged in by the States members of COMECON has increased rapidly over the past ten years, it is still at a fairly low per capita level compared with the western economies. The Soviet Union, for example, registered $61 per capita of foreign trade in 1962, whereas the figures for the United States, the Federal Republic of Germany and the United Kingdom were $200, $450 and $445 respectively. Broadly speaking, the levels for the other members of COMECON are also very much lower than those recorded by the industrialized market economy countries, with the possible exception of Czechoslovakia. Two other features of those countries' foreign trade still further limit its volume with respect to the developing countries: on the one hand, a very high proportion (65 per cent) of total trade between the COMECON countries themselves and, on the other, trade with the developing countries represents barely 10.8 per cent. No other groups of countries, such as those belonging to the EEC, reach that degree of intra-regional concentration and the proportion of their trade with the developing countries is far higher than that of COMECON (i.e., over 40 per cent).

518. If the factors responsible for such a limited proportion of trade with other areas were to be eliminated, or at least mitigated, presumably Latin America could aspire to a fairly sizable volume of trade with that area. While it is impossible to make detailed projections of any kind for the time being, it might be mentioned for purpose of illustration that if the centrally-planned economies were to import from Latin America a proportion of their gross domestic product equal to half that imported by the Federal Republic of Germany, it would amount to over $2,250 million a year.

519. Trade prospects are, of course, brighter for some products than for others. Tropical agricultural commodities are not produced within COMECON and their consumption is expanding rapidly. There are also good prospects of increasing trade in raw materials, such as cotton, wool and hides, which are needed in growing quantities. Temperate-zone products offer more sporadic, but also interesting, possibilities. For instance, based on over-all projections of income and assuming that per capita consumption of coffee and cacao were to rise to half the figure registered today in a country like the Federal Republic of Germany, coffee imports by the centrally-planned economies could amount to about 1.5 million tons at a value of $1,350 million by 1965, and those of cacao to 800,000 tons at a value of $690 million, instead of the 26,000 tons of coffee and 32,000 tons of cacao actually imported in 1958. Whatever reduction takes place in these figures, in view of different factors that keep consumption of these items far below the levels attained in the United States or the Federal Republic of Germany, there are unquestionably ample possibilities for finding an outlet for these and other commodities.

520. However, Latin America's annual trade with the centrally-planned economies up to 1953 was never more than $100 million. In 1954 and 1955, owing mainly to the expansion of Argentina's trade with that area, exports rose to $169 million and $207 million respectively, with imports of $231 million and $181 million in each case. Trade fell off again in the next three years, to recover in 1960 largely as a result of the shift in Cuba's foreign trade. No information is available on Cuba's trade since 1961, but that of other Latin American countries, particularly Brazil, has again increased (see table 69).

521. As regards existing trade flows, it should be mentioned that while Brazil's trade with the centrally-planned economies in 1956 was approximately $93.4 million for exports and $46 million for imports, these figures rose to about $76 million and $73.5 million respectively in 1962. The levels attained by Argentina in some years were even higher in 1954 its exports reached a peak of $97.7 million, fell off considerably in the next few years, but rose again to approximately $75 million in 1962. In Uruguay, the figures have been lower in absolute terms, but have represented an even higher percentage of total exports and imports; in fact, its exports reached a maximum of $26.3 million in 1958.

522. The rest of the Latin American countries, with the exception of Cuba, engage in relatively little trade with the centrally-planned economies (for further details see tables 70 and 71).

523. A very high proportion of Latin American trade with the centrally-planned economies consists of a limited number of agricultural commodities. Exports from the temperate zone—Argentina and
TABLE 69
Share of countries with centrally-planned economies in total volume of Latin American trade
(In millions of dollars)

<table>
<thead>
<tr>
<th>Year</th>
<th>To mainland China</th>
<th>To other countries with centrally-planned economies</th>
<th>To all countries with centrally-planned economies</th>
<th>Total exports from Latin America</th>
<th>(D) as percentage of (D)</th>
<th>Total imports from countries with centrally-planned economies</th>
<th>Total imports by Latin America</th>
<th>(C) as percentage of (D)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1938</td>
<td>1</td>
<td>27</td>
<td>28</td>
<td>1693</td>
<td>1.7</td>
<td>31</td>
<td>524</td>
<td>2.0</td>
</tr>
<tr>
<td>1948-1953</td>
<td>2*</td>
<td>69</td>
<td>71</td>
<td>6852</td>
<td>1.0</td>
<td>52</td>
<td>2.9</td>
<td>0.8</td>
</tr>
<tr>
<td>1954</td>
<td>10</td>
<td>159</td>
<td>169</td>
<td>7867</td>
<td>2.1</td>
<td>231</td>
<td>3.1</td>
<td>3.1</td>
</tr>
<tr>
<td>1955</td>
<td>6</td>
<td>207</td>
<td>207</td>
<td>7991</td>
<td>2.6</td>
<td>181</td>
<td>2.4</td>
<td>2.4</td>
</tr>
<tr>
<td>1956-1958</td>
<td>6</td>
<td>127</td>
<td>133</td>
<td>8439</td>
<td>1.6</td>
<td>99</td>
<td>1.2</td>
<td>1.2</td>
</tr>
<tr>
<td>1959</td>
<td>3</td>
<td>157</td>
<td>160</td>
<td>8285</td>
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<td>125</td>
<td>1.6</td>
<td>1.6</td>
</tr>
<tr>
<td>1960</td>
<td>41</td>
<td>269</td>
<td>310</td>
<td>8656</td>
<td>3.6</td>
<td>158</td>
<td>1.9</td>
<td>1.9</td>
</tr>
<tr>
<td>1961</td>
<td>80</td>
<td>140b</td>
<td>220b</td>
<td>8660</td>
<td>...</td>
<td>131b</td>
<td>8.03b</td>
<td>...</td>
</tr>
</tbody>
</table>

Source: United Nations, Direction of International Trade, and national statistics

To that end, data and impressions were collected from the countries mentioned by means of surveys covering government officials and persons associated with private trade who have taken part in negotiations with certain centrally-planned economies. Naturally, the references contained in the text represent only a very general appraisal of the results of that survey, the persons interviewed being absolved from all responsibility.

TABLE 70
Latin American exports to eastern Europe, by country of origin
(F.o.b. values in millions of dollars)

<table>
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<tbody>
<tr>
<td>Argentina</td>
<td>49.9</td>
<td>31.9</td>
<td>38.0</td>
<td>35.7</td>
<td>12.6</td>
<td>22.8</td>
<td>97.7</td>
<td>81.6</td>
<td>41.2</td>
<td>29.0</td>
<td>29.4</td>
<td>51.3</td>
<td>59.1</td>
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</tr>
<tr>
<td>Brazil</td>
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<td>17.9</td>
<td>21.6</td>
<td>24.7</td>
<td>4.5</td>
<td>4.2</td>
<td>42.1</td>
<td>42.9</td>
<td>39.4</td>
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<td>58.2</td>
<td>69.6</td>
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<td>0.3</td>
<td>0.4</td>
<td>0.4</td>
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<td>0.4</td>
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<tr>
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<td>0.7</td>
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<td>1.2</td>
<td>0.9</td>
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<td>2.0</td>
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<tr>
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<td>—</td>
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<td>1.5</td>
<td>0.2</td>
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</tr>
<tr>
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<td>—</td>
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</tr>
<tr>
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<td>2.9</td>
<td>2.4</td>
<td>2.0</td>
<td>1.5</td>
<td>1.4</td>
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<td>0.5</td>
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<td>0.3</td>
<td>0.9</td>
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</tr>
</tbody>
</table>

Total Latin America 90.4 66.3 64.5 66.7 21.9 29.8 144.7 173.3* 104.5* 117.9* 110.2* 145.4 255.1 127.3

* Including Haiti (0.1).
* Including Venezuela (0.1).
* Including Honduras (0.1).
temporarily, for the reduction in its trade figures with the centrally-planned economies. On the other hand, transactions with mainland China are based on direct payment in dollars.

525. Brazil, another of the Latin American countries which has traded extensively with the centrally-planned economies, has also operated on the basis of bilateral agreements. Of late, the scope of these agreements has broadened and trade has increased steadily. The conviction is prevalent in Brazil, at least in government circles, that such bilateral payments agreements presuppose a net addition to the country's importing capacity and that the difficulties inherent in their operation can be overcome (see table 72 containing figures for Brazil's trade with each of the centrally-planned economies from 1956-62). Brazil does not seem to have shown the same tendency to accumulate credit balances as Argentina.

526. Uruguay, which has traditionally maintained active trade relations with the centrally-planned economies in Europe, has signed a number of payments agreements since the end of the World War in 1945. These are compensatory agreements of the usual kind, with clearing accounts in the banks of the two parties concerned. They have on occasion acted as direct barter mechanisms, owing to the existence of export and import schedules and to the implicit commitment they contain to conduct operations for balanced amounts.

527. The type of agreement adopted by Uruguay is much the same as that used by Argentina and Brazil. The unit of account is the United States dollar. Swing or maximum, credits are fixed, over and above which payment has to be made in dollars. As a general rule, the agreements include schedules of goods in which trade is assumed to be permitted, and a figure is established for the aggregate volume of such trade. Balances outstanding at the end of the customary period of time, or at the expiry of the agreement, should also be settled in dollars. As in Argentina and Brazil, and in all the other Latin American countries that have a market economy and trade with the centrally-planned economies, many operations are effected in free dollars outside the purview of the agreements.

528. In general, the view is held in a number of quarters in the three countries concerned that such trade is important to the national economy. Despite occasional difficulties in using up the balances, it is considered to have made a net addition to the capacity to import, to have opened a new outlet for exports, and, on the whole, not to have caused any particular problems as regards the price of the transactions. There are, however, a few difficulties, which will have to be overcome if the trading activities in question are to acquire the importance that ought to be attached to them.

529. The main difficulties, which partly explain why the level of such trade has been so low up to now, are set forth below:

(a) In the first place the economic policy of the centrally-planned economies has tended to relegate international trade to the background in development plans. Their policy is implicitly geared towards self-sufficiency, in that they prefer to produce all they need

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**Table 71**

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<td>1.3</td>
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<td>2.8</td>
<td>4.0</td>
<td>2.5</td>
<td>3.1</td>
</tr>
</tbody>
</table>

**Sub-total**

| 36.2 | 40.7 | 51.3 | 46.8 | 32.6 | 45.0 | 210.0 | 153.7 | 120.5 | 62.7 | 56.5 | 116.9 | 148.3 | 124.0 |

**Total Latin America**

| 38.7 | 42.3 | 53.8 | 52.1 | 36.5 | 46.1 | 214.3 | 158.9 | 129.1 | 71.0 | 62.3 | 119.6 | 149.5 | 125.3 |

...
### Table 72

Brazil: Trade with the centrally-planned economies

(Value in millions of dollars; exports f.o.b.; imports c.i.f.)

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<td>0.04</td>
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<td>—</td>
<td>11</td>
</tr>
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<td>22 705</td>
<td>17 452</td>
<td>18 174</td>
<td>14 220</td>
<td>12 273</td>
<td>21 510</td>
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<td>—</td>
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<td>1 108</td>
<td>504</td>
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<td>16 447</td>
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<td>322</td>
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<td>—</td>
<td>—</td>
<td>714</td>
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<tr>
<td><strong>Total Comecon</strong></td>
<td>38 848</td>
<td>46 132</td>
<td>39 471</td>
<td>38 327</td>
<td>38 225</td>
<td>28 954</td>
<td>55 346</td>
</tr>
</tbody>
</table>

*Other centrally-planned economies*

| Yugoslavia     | 15 507| 19 982| 4 095 | 1 948 | 2 736 | 272   | 3 158 | 1 118 | 8 069  | 3 993 | 4 848  | 4 438 | 2 449  | 12 479|

*All centrally-planned economies*

| All centrally-planned economies | 54 355| 66 114| 43 566| 40 120| 41 063| 29 226| 58 504| 50 325| 79 037 | 83 433| 79 689 | 74 671| 75 619 | 73 537|

*All centrally-planned economies as a percentage of the total for Brazil*

| 3.7 | 5.4 | 3.1 | 2.7 | 3.3 | 2.2 | 4.6 | 3.7 | 6.2 | 5.7 | 5.7 | 5.1 | 6.2 | 4.9 |
within their own borders, and this is naturally an obstacle to international trade. The nature of their system of planning, which decides exactly what is to be produced, what is to be exported and what to be imported, is such as to give full rein to these autarkic trends. Although, in actual fact, they have become less marked in recent years, they still seem to be the main reason why a great many of the natural possibilities for trading on an international basis remain unrealized. While it is true that more importance is being attached to the possible advantages of international trade—in the shape of incentives to official foreign trade enterprises to raise the "profits" of the operations entrusted to them—and that increasingly detailed calculations are being made of the saving in resources obtainable through international specialization, it is no less true that this new concept of the role of foreign trade is largely coming to mean specialization agreements within COMECON, without any very great relaxations of the restrictions applied vis-à-vis the other areas. This should be regarded as the keynote for future trade relations. To a great extent, trade between the developing countries and the centrally-planned economies will be in direct ratio to the stress laid upon foreign trade by the Governments of the latter countries in their plans and practical decisions.

(b) The fact that the centrally-planned economies usually prefer to conduct their trade transactions on the basis of bilateral medium-term payments agreements has an important bearing on their future trade with the developing countries. The use of bilateral channels for international trade leads to administrative problems, non-convertibility of payments with the ensuing adverse effects on trade fluidity and the general danger of trade distortions and limitations.

In order to assess the place of bilateral agreements in trade with the centrally-planned economies, it should be realized that the system is firmly entrenched and that its replacement by another procedure offering greater convertibility might give rise to administrative difficulties. But this does not detract from the need to find formulae that would by-pass the practical problems inherent in bilateralism and leave the way open to full convertibility in future.

Strict bilateralism, with the resulting obligation to spend the balances solely in the country that is a party to the agreement, imposes restrictions that are liable to have serious implications, particularly when the creditor country has difficulty in importing goods that it really needs. Difficulties of this kind may prevent the agreement from functioning, if the debtor country refuses to allow its debit balance to exceed the limit of the swing agreed upon, or lead to the maintenance of credit balances which, as pointed out before, represent an odd form of assistance from the developing to the industrialized countries.

This problem would be greatly simplified if, as a first step towards wider convertibility, a country which had built up a credit balance in one State member of COMECON were allowed to spend that balance in the other COMECON countries, the sphere of utilization of balances thus being broadened.

(c) As regards the prices adopted for transactions, the differences between the price concepts and mechanisms in force in market and in centrally-planned economies are well known. As a rule, sales of primary commodities are settled through the payments mechanism at international prices on which exact information is normally available. But when the goods in question belong to the far wider range of manufactures that Latin America is interested in importing, for which comparable international quotations are much harder to obtain, the problem becomes more complicated.

The customary reservations expressed in this respect are based on the monopolistic nature of the State enterprises that deal with sales on behalf of the countries with centrally-planned economies, and on the ignorance of exporters in the market economies of the real market conditions in which they will be disposing of their goods. Moreover, the system lends itself to the possibility of dumping, which could not be proved because of the different methods used for calculating production costs.

(d) Even more important is Latin America's difficulty in finding suitable products to import from the centrally-planned economies. This is partly due to the characteristics of the machinery and equipment produced there, whose standards and technical specifications differ considerably from those of similar items manufactured by the industrialized countries in the west and are therefore hard to adapt to Latin American plants, and partly to the lack of spare parts, established sales representatives and publicity material, etc. It is also due to the want of flexibility and variety in the export surpluses of the centrally-planned economies, since the existence of surpluses depends on government decisions by which the socialist foreign trade agencies must abide. Much could be done, however, to alleviate the problem through the gradual adaptation of equipment, the establishment of branch offices with an adequate stock of spare parts, and improvements in quality and technical specifications.

Then, too, the countries that could trade more actively with the centrally-planned economies often harbour misgivings with respect to the duration of present trade movements and those likely to be established in future, and the danger that they might be abruptly arrested by a one-sided decision. In the case of trade with other market economies there is also the likelihood that a government decision will drastically change the structure of demand. But in market economies the power exercised by individual preferences and the influence of prices tend to act much more forcefully in favour of traditional suppliers than in countries where the decisions are taken by a central organ. Similarly, in the former, tariff reductions do have significance whereas in the latter they have much less automaticity since the final decision to import remains in the hands of the planning authorities.

In short, the centrally-planned economies are undoubtedly an important potential market. They offer trading possibilities of which Latin America has only just begun to avail itself and that may expand considerably in future. Problems still subsist, some new and different, that have sprung from the opening
trade channels between the market and centrally-planned economies, and others that relate to practical methods and procedures and will not be difficult to solve. But in no case are there barriers formidable enough to prevent this trade potential from being realized to the mutual benefit of both parties.

(3) Possibilities of trade with other developing areas

530. From a broad standpoint, Latin America's trade with Asia and Africa (excluding Japan and South Africa) is both scanty and sporadic. In 1961 its exports totalled about $160 million, of which a little less than two-thirds were destined for Asia. In the same year, its imports amounted to $260 million, less than a fifth being contributed by Africa.

531. Both Latin America and the other two regions conduct the bulk of their trade activities with the major centres. Asia's regional trade is fairly important (20 per cent), but with South Africa excluded, Africa's is no more than 4 per cent. The volume of trade with other developing areas is also relatively insignificant, being slightly over 6 per cent in the case of Asia and a little less than 7 per cent in that of Africa (as against 2.7 per cent for Latin America.)

532. Latin America is a fairly regular buyer of certain raw materials from Asia, such as tin and rubber (Malaya), jute (India and Pakistan), fuels (Saudi Arabia and Kuwait) and tea (India and Ceylon). Latin American tinned meat is purchased by the Philippines, cotton yarn and textiles by Indonesia, wool, vegetable oils, grains, sugar and meat by mainland China and Chilean nitrate by the United Arab Republic. Africa buys fuels mainly from Venezuela.

533. Except for trade between Mexico and Indonesia which is governed by bilateral trade and payments agreements, no other attempts have been made to trade on a systematic basis with Asia and Africa.

534. Apart from the rather lacklustre efforts made by the developing countries to trade among themselves, there are additional difficulties compounded of their remoteness, the lack of regular communications, the dearth of other ties that would be likely to stimulate trade and, above all, the lack of complementarity between the different types of basic products.68

535. The intense trading activities carried on with Japan on the one hand and with the European countries lying in the Mediterranean basin on the other have occasionally led to the utilization of idle transport capacity and the conclusion of export and import agreements with parts of Asia and Africa.

536. The present volume of trade does not provide any grounds for evaluating the results that might be obtained, even in the immediate future, from an intensification of existing flows. Any forecasts made would have to take into account:

(1) The modifications that the recent movements towards political independence (especially in Africa) might make in the traditional economic ties between the former metrópolis and their associated territories;

(2) The stage of economic development capable of being reached in a short space of time by the countries in other regions, starting from their present low level; and

(3) The influence of regional groups (ALALC and those envisaged in Africa) as a factor making for the systematization and co-ordination of trade at the continental level.

537. The first two points may be considered as outside Latin America's control. But, in order to establish bases for more balanced and harmonious international trade, it is important to ascertain the fields in which reciprocal demand could be stimulated, as some countries—Argentina, Brazil and Mexico—are already doing. In this respect, it would be advisable to follow the line of action taken by the Trade Committee of the Economic Commission for Asia and the Far East, which has organized research and intergovernmental consultations on these problems, covering State trading, the organization of trade fairs, the spread of information on markets, the improvement of the production and sale of primary commodities of importance to the region, the simplification of customs formalities and the improvement of transport media.

538. The initial work of promotion can only be undertaken with the support of the Governments concerned, which would also be responsible for setting up the special mechanisms required and deciding on the advisability of resorting to compensatory arrangements to ease the chronic balance-of-payments difficulties from which all the developing areas are suffering. Proper international co-ordination would also help to prevent national food production policies (which are important for developing economies because of the high rate of population growth and the need for a more nutritious and varied diet) from being worked out solely with a view to internal convenience irrespective of the cost advantages and comparative benefits to be obtained from a rational world division of labour.

539. Co-ordinated international action might also include projects to set up economic and efficient sales, maintenance and information facilities and to explore the possibility of establishing reciprocal preferential treatment for areas in process of development, which might eventually be transformed into a substantial trade flow.

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68 See United Nations, Problemas internacionales que plantean los productos básicos (E/CONF.46/PC/18), 10 May 1963.
PRINCIPAL BACKGROUND DATA ON THE PROCESS OF ESTABLISHING A NEW WORLD TRADE ORDER

A. INTRODUCTION

540. This chapter will deal with the main international co-operation activities in the field of trade. Since it covers widely dispersed and varying activities, the study will be confined to those bearing on matters that are to be discussed at the forthcoming United Nations Conference on Trade and Development.

541. A pre-eminent part in world trade policy is played by the General Agreement on Tariffs and Trade (GATT) to which so far only eight Latin American countries have acceded. Argentina is an associate member. Before starting to examine it, brief reference must be made to its immediate predecessor, the Havana Charter, which is based in turn on the principles of the 1941 Atlantic Charter.

542. The Havana Charter, with the aim of providing foreign trade with a structure conducive to the promotion of the economic development of all countries and a general rise in world levels of living, provided for the establishment of an International Trade Organization. This institution like the International Bank for Reconstruction and Development, the International Monetary Fund and the Food and Agriculture Organization of the United Nations would, under the aegis of the United Nations, pursue the social objectives emerging in the post-war period. These objectives were based on the premise that by opening up the world market to all factors of production and ensuring the free circulation of goods, a considerable improvement might be expected in the common well-being, provided that a system of international co-operation concerned itself with the economic development of the weak countries.

543. At Havana, the Latin American countries, which at their meeting at Chapultepec in 1945 had weighed the risks involved in the unrestricted liberalization of trade movements, strongly supported the inclusion of rules aimed at protecting and promoting economic development, including those related to preferential customs tariff agreements. The prolonged discussion is reflected in the sometimes rather vague wording of the Charter which, however, retained the principle of a world multilateral system and the creation of a powerful instrument of international co-operation, with authority to promote integration of the weaker economies within a world-wide context.

544. At Havana, as on other occasions, attention was drawn to the difficulties in the way of the Latin American countries obtaining equitable trade treatment, which have been greater than those experienced by other developing countries. For example, Latin America had no established preferential system of its own, like the countries parties to the Ottawa Agreement or those belonging to the French Union. Thus, while other areas succeeded in getting their preferential régimes excluded from the rules on multilateralism contained in the Havana Charter, to the evident detriment of Latin American exports, Latin America was compelled to subject all its trade to the most-favoured-nation clause. While it is true that, under the Charter Latin America could obtain preferential treatment through customs unions on free-trade areas, the existing groupings would still have enjoyed an advantage since they included very rich industrial centres capable of offering a wide market for the production of their associate countries or territories.

545. The Havana Charter failed to obtain enough ratifications to come into force and the void created by the absence of an international trade organization would, in part of the post-war institutional structure had other negative consequences for the developing countries. For instance, there was a tendency to solve balance-of-payments problems through monetary measures—generally involving restrictions on trade and the economy—rather than by means of increased and more diversified exports. It might well be asked whether action by the International Monetary Fund would not have been more readily available to Latin America had the Latin American countries been able to turn to an international trade organization in order to remove the more deeply-rooted causes of the growing pressures on their balance of payments.

546. Likewise, it is possible that had the International Trade Organization existed, it would have prevented the preferences that were excluded from the multilateral system of the Havana Charter and subsequently from GATT as well, from becoming an extensive discriminatory system jeopardizing the interests of the region once the system of association between the EEC and France's former territories came into being. Nor, perhaps, would it have allowed this discriminatory system and that of the Commonwealth from weakening the combined action of developing countries in such questions as price and stability of markets for raw materials, in which it is of the utmost importance that separate preferential systems should be prevented from undermining the negotiating capacity of the region as a whole.

547. In view of the failure to ratify the Havana Charter, GATT played a preponderant role in international trade. Its rules are, generally speaking, the same as those contained in the Charter as far as regulating tariff negotiations and compliance with their results are concerned. Besides excluding the preferential groupings that existed in 1948 from the most-favoured-nation clause, it authorizes the establishment of customs unions and free-trade areas, provided they obey certain rules and recognize the

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39 It was not ratified by the United Kingdom or the United States.
40 ECLA, Study of Inter-Latin-American Trade (E/CN.12/369/Rev.1) in which an analysis is made of GATT's significance for Latin America and the results are shown of a survey of the Latin American countries to ascertain the reasons underlying their accession to GATT or their rejection of this Agreement.
possibility of adopting specific measures—generally by the granting of waivers from multilateral obligations—to promote economic development and protect the balance-of-payments situation. However, GATT lacks the positive provisions contained in the Havana Charter aimed at systematizing international cooperation in foreign trade in the interests of economic development.

546. GATT's task has been by no means easy. Apart from its statutory limitations, it has been acceded to by less than half the countries in the world. Its action, moreover, has been hampered by the division in world trade between the centrally-planned economy and capitalist sectors; by the absence of proper high-level co-ordination in economic activities, and by the absence of an agency empowered to work out solutions and propose them to Governments, as in EEC, so as to avoid the origin and application of such solutions depending on negotiations between contracting parties with markedly different levels of economic and political power.

549. The valuable contribution GATT has made through its rules for bilateral negotiations is widely recognized. It is further admitted that those negotiations have made it possible to maintain the customs duties levied on manufactures at fairly reasonable levels, which in some degree has served to mitigate the discriminatory effects of the large-scale preferential régimes. Moreover, GATT is considered to be a good forum for discussion of trade policy questions, and the system of consultations applied in those discussions is regarded as a profitable innovation in international trade practices.

550. Nevertheless, GATT has been unable to deal successfully with extremely complex events, such as the increase in discriminatory practices and the relatively reduced importance of primary commodity exports by the developing countries. The most serious infringement of GATT rules occurs in respect of primary commodities. These regulations, based also on the Havana Charter, represent the concrete expression of the principle of international division of labour long advocated by the industrial powers. The under-developed countries parties to GATT which had hoped to have little difficulty in placing increasing quantities of their primary goods in industrial centres have thus seen their hopes frustrated.

551. The major countries do not practice—with respect to their own production—what they themselves advocated concerning the international division of labour. Simultaneously with GATT's organization and development the major countries stimulated domestic production of basic raw materials, including many which in the past had formed the basis of the developing countries' international purchasing power. Substantial subsidies have been extended to foster agricultural production—which is often anti-economic—to the point of creating surpluses that disrupt the picture of co-existence at the world level as envisaged in the statutes of GATT. The extensive derogations or exemptions of unlimited duration provided for by that agency (such as that granted to the United States for agricultural commodities), as also the statements by representatives of the leading nations, preclude any illusions that GATT rules can protect the developing countries' exports, even if backed by productive efficiency and specialization.

552. In so far as discriminatory practices are concerned, GATT's rules have proved ineffective. The EEC liberalization programme constitutes a vast infringement of the rules concerning the multilateral system, which are of fundamental importance in GATT. At the time of its establishment it might have been argued that such discriminatory liberalization did not conspire against Latin America's interests, inasmuch as the elimination of barriers applied to manufactures that it did not export—or exported on only a minor scale—to Europe. However, GATT's silence regarding the programme was highly revealing as to the fate that observance of its principal rules would meet with in time.

553. Although the whole of GATT's tariff negotiation régime is based on the weighted average, this could not prevent the external tariff for the European Common Market from being based on the arithmetical average. At GATT's request, negotiations were held to compensate countries whose interests were impaired by the EEC common tariff, but the Latin American countries affected were not satisfied with the compensations thus obtained.

554. The lack of any statement by GATT on the compatability of its provisions with the principles of the statutes of association between the EEC and the eighteen African countries was a further source of concern to Latin America. The statutes in question extended the geographical scope of the French Union's preferences and, although EEC spokesmen in GATT maintained that the association constituted a free-trade area, that régime was not explicitly contemplated in the instrument of Association. By failing to voice an opinion, GATT tacitly agreed to the marked increase in discriminatory practices imposed by the association.

555. The action taken by Uruguay is a further illustration of the Latin American countries' position as regards observance of GATT rules. A survey carried out by that country showed that its exports are subject to more than 500 non-customs tariff restrictions, many of them in violation of GATT since they are applied by countries with no balance-of-payments problems. The slow and difficult progress made in Uruguay's negotiations for the removal of these restrictions and the application of retaliatory measures point to the little real value that GATT's rules can have as an instrument of protection for the developing countries.

556. On a more general plane, the Latin American countries have striven to achieve ratification of some measures aimed at solving the serious problem posed by the decline in their foreign trade, largely due to the policy followed by the industrial centres which are fostering trade in raw materials between one another, to the detriment of their traditional suppliers. However, in discussing such possible measures they have realized that they lack adequate support in GATT, since there are very strong interests—including political interests—militating in favour of the extension of preferences and the maintenance of quantitative
restrictions. In those circumstances and without the support of the EEC countries, an Action Programme has been drawn up (see section B, paragraph 5 of the present chapter) which, if put into force by the major nations, would result in an improvement of the developing countries' international trade possibilities.

557. The Action Programme does not refer specifically to agricultural exports from the temperate zone which offer far from encouraging prospects for many countries in process of development. Nevertheless, some proposals of interest to the developing countries have been put forward both in GATT and at the second preparatory meeting of the United Nations Conference on Trade and Development on the organization of agricultural markets at the world level. Although these ideas have not been given sufficiently concrete expression to be examined fully, it is noted that the concept of efficiency and specialization inherent in GATT rules has been discarded in favour of a system that will guarantee more remunerative prices, but which could signify for Latin America the danger of gradually losing its relative position in the large industrial centres, since no mention is made of assuring exporters of a share related to the growth of demand.

558. Recently GATT has embarked on an initiative which may have most fruitful results—namely, that of obtaining some advantages for the developing countries in the forthcoming negotiations (Kennedy round) such as that of applying to their own exports to the large industrial centres, without reciprocity, the tariff reductions which the major nations may decide in that round.

559. GATT has not been able to take any major action with respect to trade relations between the market economy countries and those with centrally-planned economies, despite the fact that trade with the latter opened up important possibilities for expansion and diversification of exports from the developing countries. GATT's inactivity in this connexion has had more far more harmful results for countries in process of development than for the great Powers which in themselves wield sufficient political and economic power to take their own decisions regarding trade with the centrally-planned economies.

560. All the facts mentioned point to the need to consider whether GATT, on a basis of universality, could serve as the new structure for world trade. Although those same facts can be interpreted from different standpoints, there can be no doubt that the less-developed countries claims have not met with a very favourable reception in GATT. This agency seems to be adapted rather to the requirements of trade between the industrialized market economy countries, to which no doubt it is most useful. The general reduction in customs tariffs expected from the Kennedy round would be difficult, if not impossible, to achieve without GATT's aid. These considerations make it possible to forecast that GATT will have a place in the new structure that may emerge from the United Nations Conference on Trade and Development. However, taking into account the direction into which international trade has been forced by the industrialized nations, the developing countries would have ample grounds for demanding prompt and vigorous action based on rules compatible with actual trade conditions, laid down within a suitable institutional framework.

561. In this respect, it is worth while examining the rules contained in the existing statutes of GATT as regards protecting the economic growth of the less developed countries. These rules are based on waivers from specific obligations that can be granted to developing countries. Hitherto, countries have not on the whole had recourse to waivers because they consider that the rules for protecting the balance of payments in order to encourage the establishment of certain industries are more flexible and far-reaching. All this leads to the conclusion that positive provisions would be more useful than exceptions to the general rule, as in GATT, even if their number had to be increased, and that it is doubtful whether this agency can provide a suitable framework for systematizing international co-operation in the interests of solving the problems of under-development, in so far as they are related to foreign trade.

562. Moreover, the new exceptions to the general rule cannot be put into practice—under the terms of the GATT Charter—unless each and every Contracting Party deposits the instrument of ratification in respect of the relevant amendment, a procedure which can be made difficult and burdensome than the conclusion and putting into effect of a new international trade agreement containing positive measures of international co-operation in the interests of the less developed countries.

563. The instruments and ideas that have awakened interest as a possible solution to the developing countries' foreign trade problems are examined in greater detail below. Although all these questions are widely known, it was considered advisable to include them in the text so that they can serve as criteria for drawing up the guiding principles of the most suitable trade policy for Latin America, in face of the serious circumstances created by the adverse evolution of its foreign trade, and to discover how far the efforts now being made and the concepts discussed at the international level are adequate to assure the less-developed countries of the trade expansion they need.

B. THE HAVANA CHARTER

564. The Havana Charter has the merit of being the first systematic attempt to organize world trade. In stressing full employment and economic development as important aims in expanding and giving new impetus to foreign trade, it embodies some of the basic concerns of the present-day world.

565. The limitations inherent today in its trade policy regulations reflect the different political and economic circumstances in which it was drawn up, but even so, its projection to the present time through GATT and other manifestations of international activity, in particular commodity agreements, are

41 The same as those pointed out in the following section with respect to GATT.
Evidence of the outstanding role that should be attributed to it.

566. Two years of difficult negotiations culminated in the Final Act of the Charter, signed on 24 March 1948. The initiative came from the United States, whose Government in December 1945 published what is known as the Clayton Plan concerning proposals for world-wide expansion of trade and employment. This Plan, the object of which was to make full use of potential human resources and to raise living standards, was based on six principles, namely: (a) expansion of foreign trade; (b) freedom of private enterprise; (c) multilateral trade; (d) elimination of preferences; (e) a stable trade policy; and (f) international co-operation. The Plan was based on the United States' aim to participate actively in a widespread international co-operation movement.

567. Three preliminary drafts of the Havana Charter were drawn up and at the preparatory meeting held at Geneva in 1947 a large number of amendments proposed by the forty-six participating States were examined. At the same meeting, the General Agreement on Tariffs and Trade was prepared as a transitional instrument which was put into effect by a group of countries in 1948 to facilitate tariff negotiations and to expedite compliance with some of the rules of the broader instrument to be known as the Havana Charter.

568. The Charter was formally considered at the United Nations Conference on Trade and Employment, which opened in Havana on 21 November 1947 and was attended by 56 delegations. (The USSR was not represented.) The Charter was signed on 24 March 1948 by 53 countries, Argentina being one of the countries which abstained. The Charter failed to obtain the number of ratifications required for it to be put into effect and in 1951 the Governments of the United States and of United Kingdom announced that they did not intend to submit it again to parliamentary approval.

569. Its general principles, integrated as far as trade policy is concerned with the unconditional application of most-favoured-nation treatment, are the following:

(1) That barriers to trade, other than tariffs, should be eliminated or minimized;
(2) Acceptance of customs unions and free-trade areas that are subjected to specific regulations;
(3) Non-discrimination in trade relations between States;
(4) That State-trading operations should be governed by the principles that apply to private trade;
(5) That subsidies should not be used to obtain more than a fair share of the world market;
(6) That international trade should not be restrained by public or private monopolies or cartels;
(7) That inter-governmental agreements with respect to trade in primary commodities should conform to established principles; 43
(8) That the maintenance of industrial stability and fair labour standards are essential to the expansion of world trade; and
(9) That international private investment, if afforded security, will promote economic development.

570. The provisions of chapter VII of the Charter relate to the aforementioned International Trade Organization, which was intended to occupy a prominent place among the United Nations specialized agencies. The purposes and objectives of the Organization, as set out in article 1, are briefly as follows:

To assure an increment in the volume of real income and effective demand, to increase the production, consumption and exchange of goods, and thus to contribute to a balanced and expanding world economy;

To foster and assist industrial and general economic development, particularly of those countries which are still in the early stages of industrial development, and to encourage the international flow of capital for productive investment;

To further the enjoyment by all countries, on equal terms, of access to the markets, products and productive facilities which are needed for their economic prosperity and development;

To promote on a reciprocal basis the reduction of tariffs and other barriers to trade and the elimination of discriminatory treatment in international trade;

To enable countries, by increasing the opportunities for their trade and economic development, to abstain from measures which would disrupt world trade, reduce productive employment or retard economic progress;

To facilitate through the promotion of mutual understanding, consultations and co-operation the solution of problems relating to international trade, employment, economic development, trade policy and practices, and primary commodities.

571. Its functions, as defined in article 72, include the following:

(a) To collect, analyse and publish information relating to international trade and all other matters connected therewith;
(b) To encourage and facilitate consultation among Members on all questions relating to the Charter;
(c) To undertake studies and, having due regard to the objectives of this Charter and the constitutional and legal systems of Members, make recommendations and promote bilateral or multilateral agreements concerning measures designed.

(i) To assure equitable treatment for foreign nationals and enterprises;

43 Chapter VI of the Charter includes a definition of these commodities; objectives of agreements; special studies and meetings; minimum conditions governing commodity agreements; administration and duration of agreements; settlement of disputes; relations with other inter-governmental organizations, etc. The provisions contained in this chapter have served as a basis for the operation of United Nations study groups and for commodity agreements.
(ii) To expand the volume and to improve the bases of international trade, including measures designed to facilitate commercial arbitration and the avoidance of double taxation;

(iii) To make a study, on a regional or other basis, of the Members' natural resources and potentialities for industrial and general economic development, and assist in the formulation of plans for such development; and to furnish technical assistance for the financing and carrying out of their programmes for economic development or reconstruction;

(iv) To promote the technical training that is necessary for progressive industrial and economic development; and

(v) To achieve any of the remaining objectives of the Charter.

(d) In collaboration with the Economic and Social Council of the United Nations and other inter-governmental organizations, to undertake studies on the relationship between world prices of primary commodities and manufactured products, to consider and, where appropriate, to recommend international agreements or other measures designed to reduce progressively any unwarranted disparity in those prices;

(e) To furnish advice and assistance to the Members regarding the Charter, its scope and application; and

(f) To co-operate with the United Nations and other inter-governmental organizations in furthering the achievement of their economic and social objectives and the maintenance or restoration of international peace and security.

C. RECENT GATT ACTIVITIES AND TRADE AMONG THE DEVELOPING COUNTRIES

572. The results of the bilateral tariff negotiations of unprecedented scope and magnitude, which were held at Geneva in 1947 at the time the Havana Charter was under consideration, were crystallized in the General Agreement on Tariffs and Trade (GATT). Apart from establishing regulations for negotiation machinery, this Agreement also ruled on such questions as tariffs, internal taxation, dumping and countervailing duties, quantitative restrictions, exchange arrangements, subsidies and State monopolies. These rules were designed to ensure enforcement of the tariff reductions and were similar to those laid down in the Havana Charter.

573. GATT came into being as a temporary instrument on the understanding that an international trade organization would eventually be created as the Havana Charter recommended. But instead of remaining a temporary and specialized agency, it has had to assume permanent and autonomous functions with respect to the major trade problems, and this explains many of its shortcomings. Of these, the most serious, from the standpoint of the developing countries, is that a mechanism devised for the negotiation of tariff reductions as the great industrial countries understand the term, can neither fulfil the aspirations nor smooth out the negotiating difficulties of the less developed countries. Attempts have been made to remedy these defects from 1954 onwards, but have met with little success.

1) Ninth session

574. During the ninth session (October 1954 to March 1955), some amendments of interest to the developing countries were approved, such as the one concerned with restrictions safeguarding the balance of payments. This is designed to prevent the imposition of restrictions that are not wholly justifiable and lays down rules for their control. At the same session, Article XVIII was modified with a view to permitting, in certain conditions, the application of protective measures conducive to economic growth and the adoption of quantitative restrictions to stabilize the balance of payments and to keep reserves at a high enough level to allow for the continuation of development programmes. As worded at present, Article XVIII has not been invoked by any Latin American country. This seems to justify the charges which, by reason of its inoperativeness, are levelled against the only GATT rule conceived with the aim of promoting economic development.

575. Some Latin American countries tried unsuccessfully to incorporate into GATT the principles embodied in article 15 of the Havana Charter on the granting of new preferences to developing countries belonging to regional groupings with a view to promoting their economic growth by providing adequate markets for their products.

576. At the same session several Latin American delegations also proposed the inclusion in GATT of the regulations on inter-governmental commodity agreements contained in Chapter VI of the Havana Charter, subject to a few modifications. The proposal failed, whereupon a specific draft agreement on the matter was prepared, which also failed to win approval.

577. However, approval was obtained on an agreement to set up the Organization for Trade Co-operation, the purpose of which was to administer the General Agreement and generally facilitate its operation through inter-governmental consultations on questions relating to international trade; sponsor trade negotiations; study questions of trade and trade policy; collect, analyse and publish information and statistical data, etc. The members of the Organization would be the contracting parties to GATT. Provision was made for the Organization to be brought into relationship with the United Nations, as one of the specialized agencies referred to in Article 57 of the United Nations Charter. The Agreement on the Organization for Trade Co-operation never came into effect, for lack of sufficient ratifications.

2) Trade in agricultural commodities

578. In the absence of an international forum for discussing general trade problems, GATT was compelled to examine the conditions created by the increasing disequilibrium and inequity of trade. In November 1957, it decided to request a panel of experts to study international trade problems, with particular reference to medium-term prospects, and production, consumption and trade levels in respect
of agricultural commodities in every country. The panel, headed by Professor Gottfried Haberler, carried out this task in February and August 1958, and came to the following conclusions:

(a) In order to be put into practice, all the recommendations require the co-operation of the industrial countries, which will realize that, over the long term, such co-operation will redound to their own benefit since they need constantly expanding markets;

(b) The recommendations may be summed up as follows: (i) expansion of economic aid; (ii) adoption of anti-cyclic measures by each country; (iii) greater international liquidity; (iv) creation of buffer stocks; (v) reduction of revenue duties on tropical products; (vi) reduction of agricultural protectionism in Europe and North America; (vii) replacement of price supports for agricultural production by deficiency payments; (viii) less protection for minerals; and (ix) the avoidance of trade-diverting measures in regional groupings such as EEC;

(c) The rules and conventions applied in international trade show a lack of balance that militates against the interests of the developing countries, since they fail to prevent or limit the application of restrictions to those countries' trade, or the promotion of anti-economic production on the part of the industrial countries;

(d) The problems confronting the developing countries would justify the use of more controls there than in the highly-industrialized countries. However, production subsidies are applied more easily by wealthy countries in support of their agriculture and mining than by the poor countries in favour of their industry, which means that a general policy of allowing production subsidies would constitute an advantage for the highly-industrialized countries.

(3) Programme for the Expansion of International Trade

579. At the Meeting of Ministers in November 1958, GATT adopted a Programme for the Expansion of International Trade and placed the responsibility for the arrangements in the hands of three committees. The first organized a new series of negotiations on tariff reductions, which culminated in the Geneva Tariff Conference of 1960-61. The second committee was requested to study agricultural trade with particular reference to non-tariff protective measures and their effects on international trade. The third committee was given the task of studying other measures of trade promotion, with due regard to the need for maintaining or increasing the export earnings of the less advanced countries.

(4) Meeting of Ministers in 1961

580. At the request of the developing countries, and recognizing that the efforts made by GATT had failed to achieve significant results, the 1961 Meeting of Ministers adopted, inter alia, the following conclusions:

(a) Tariff barriers: in view of the less advanced stage of development reached by certain countries, a more flexible attitude should be taken with respect to the degree of reciprocity to be expected from them;

(b) Trade in agricultural commodities: the establishment of bases was recommended for the negotiation of specific measures to facilitate the access of such commodities to world markets, and deep concern was expressed about the degree and extent of agricultural protectionism and its effect on world trade. A group was set up to study the question of cereals (followed by another group on meat);

(c) Obstacles to the trade of less developed countries: a declaration on promotion of the trade of less developed countries was adopted. This recommends to the Governments of the Contracting Parties that they should remove quantitative restrictions, lower tariffs and reduce or abolish revenue duties affecting the exports of developing countries, lessen or eliminate the preferences benefiting certain developing countries to the detriment of others; limits the use of production and export subsidies liable to cramp the trade possibilities of the less developed countries; and, lastly, systematize the disposal of agricultural surpluses in the light of the guidelines laid down by GATT on 4 March 1955 and FAO's Principles of Surplus Disposal.

(5) Programme of Action

581. Nevertheless, the progress made since the Meeting of Ministers in 1961 has not lived up to the expectations of the developing countries which, in May 1963, suggested a Programme of Action that was approved by the Contracting Parties but on which the EEC countries and the associated territories of Africa and Madagascar refrained from voting. Its basic points are as follows:

(a) No new tariff or non-tariff barriers shall be set up to trade with the less-developed countries;

(b) The quantitative restrictions on trade among developing countries shall be eliminated within a year. If special problems make this impossible, consultations should be held with the developing countries concerned, but the restrictions are in any case to be eliminated by 31 December 1965;

(c) The abolition of import duties on tropical products as of 31 December 1963;

(d) The developed countries shall eliminate the duties on primary commodities of importance to the trade of the developing countries;

(e) The industrialized countries shall draw up, as soon as possible, a plan for the reduction and elimination of tariff barriers to the exportation of processed and semi-processed products from developing countries, providing for a cut of at least 50 per cent in present duties during the next three years;

(f) The industrialized countries shall undertake to effect progressive reductions in their internal charges and revenue duties with a view to abolishing them by 31 December 1965.

582. The last two points on the Programme of Action refer to the procedures for reporting on the progress of the measures proposed and to other ways and means of facilitating the diversification of the less-developed economies, strengthening their export capacity and increasing their foreign exchange income.
(6) Working party to study amendments to GATT

583. The meeting in May 1963 also decided to form a working party to study possible modifications in the present GATT text. It has already considered amendments relating to:

(a) An expansion in the foreign trade possibilities and income of the developing countries, as well as the diversification of their economies and other measures for promoting their development;

(b) A modification of the most-favoured nation clause for the purpose of making new preferential arrangements in favour of the less developed countries;

(c) Anti-dumping and countervailing duties. When the exports of the less developed countries are subsidized, the industrialized countries will not impose countervailing duties;

(d) Government aid for economic development. Provisions would be included on loans from the industrialized countries on favourable terms; and,

(e) The incorporation of the points contained in the Programme of Action in the Agreement.

(7) Work of the committees and groups

584. Committees II and III have presented reports that are extremely useful for the evaluation of current trade policy problems. Special groups have been set up independently of the Committees to study the problems that arise in the cereal and meat trade and it is planned to form another on dairy products. With the aid of the countries most concerned, these groups review and discuss the implications and effects of the policies in force, as well as the immediate prospects of opening negotiations.

(8) Kennedy round

585. The Trade Expansion Act of 1962, which empowers the President of the United States to negotiate linear tariff reductions on all products or large groups of products, offers the possibility that substantial reductions in prevailing tariffs will be agreed upon during the Kennedy round, which is to begin at Geneva in May 1964, and that, as a result, new prospects will be opened up for the developing countries' trade. The Contracting Parties to GATT are preparing to make use of the negotiatory facilities offered by the United States position, and the Trade Negotiations Committee (with the aid of the Special Groups) is drawing up the pertinent plan. However, it is still too early to determine the influence of these negotiations on the traditional exports of the developing countries or the manufactured goods that they may sell in future. As one of the principal negotiators, the United States considers that special attention should be paid to the particular needs and conditions of the developing countries, but the form ultimately taken by the negotiations and their effect on the developing part of the world depend on a number of facts and viewpoints in which Latin America will have little direct say.

586. This is all the more true in that the principal temperate-zone products are excluded in practice from the system of linear reductions, since in their case special bases including tariff aspects will be negotiated to pave the way for their entry into consumer markets.

D. OTHER INTERNATIONAL IDEAS

587. Some ideas have been put forward recently, mainly within the sphere of EEC, on the trade problems of the developing countries and possible ways of solving them. While some are not official plans, they have been proposed by high-ranking members of Government in the EEC countries or by economists of international standing and have been widely accepted. They should therefore be borne in mind in this chapter, and are accordingly set forth below, with some brief comments appended.

588. They are known respectively as the PisaniBaumgartner Plan, the Brasseur proposals and the Mansholt Plan. In addition, outside the province of EEC but still in Europe, there is the plan prepared by Mr. Pierre Uri, under the auspices of the Atlantic Institute, and the United Kingdom proposals for the reorganization of their agricultural commodity market. These plans are eloquent testimony to the interest taken by Europe in the export problems of the developing countries.

(1) The Pisani-Baumgartner Plan

589. This may be described as an attempt to organize the primary commodity market on a world scale, by means of a system of price supports based on the prevailing level in the higher-income countries, production controls and strict rules for market distribution. The plan was first proposed at the GATT Meeting of Ministers in 1961 by Mr. Wilfrid Baumgartner, the Minister for Economic and Financial Affairs of France, and subsequently completed by Mr. Pisani, the French Minister for Agriculture.

590. The Plan begins by assuming that the rules of free competition are not applicable to agricultural commodities, since the unrestricted play of such forces would bring prices down. Although EEC's common agricultural policy is intended to prevent them from falling and thus to assure farmers of an adequate income, the aim should be to raise normal world market prices to the levels prevailing in the higher-income countries.

591. This could be accomplished through a general agreement on the part of all the producer countries to base prices on those prevailing in the more affluent countries, and an effective system for preventing over-production. The current "free" price on the world market would thus be replaced by a single controlled price comparable to that paid for domestic production in the major importer area. If the countries acceding to the general agreement were to take pains to see that each commodity was traded internationally at the agreed price there would be no further need for subsidies.

592. It would of course be necessary for exporters to agree on the amount that each one would sell on the world market so as to keep the supply in line with demand. Any surpluses could be used for special transactions, such as food donations.
593. Thus broadly outlined, the Plan evidently deals with issues that are fundamental to the developing countries, which are largely dependent on their agricultural commodities:

(i) **Size of commercial markets:** As high prices are expected to persist in the economically less-efficient producer countries (e.g., those in EEC, and the United Kingdom), the level of production will obviously be maintained or rise even higher. Demand has little elasticity at its present level, so it may be assumed, on the basis of the present situation, that there will be virtually no commercial markets available in future.

(ii) **Allocation of shares to the exporter countries:** If this were done on the basis of the existing situation, there would be scant possibility of expanding the share of the developing countries, whose exports have been ousted by the subsidized exports of the developed countries. Consequently, the chances of acquiring a bigger share of the market would be practically non-existent.

(iii) **Preservation of protectionist and development policies at all costs:** Agreements of the kind embodied by the Pisani-Baumgartner Plan would mean, in practice, international acceptance of precisely those policies that have most profoundly affected trade in agricultural commodities.

(2) **The Brasseur proposals**

594. At the GATT meeting in May 1963, Mr. Maurice Brasseur, Belgian Minister for Foreign Trade and Technical Assistance, made a series of proposals closely concerned with the industrial development of the less advanced countries. The plan is, in short, to establish industries in the less-advanced countries, with the backing and participation of those that are more advanced. Such industries would take an active part in international trade, and the development of each one would be assured in such a way as to equip them to withstand foreign competition. Preferential treatment would be granted to them on a temporary and declining scale. They would thus be given an initial impulse by being allowed to enter the markets of the industrialized countries. The sponsoring countries, for their part, would have a say in the selection and financing of the respective projects.

595. Two main types of industries would be assisted: (a) those whose cost prices are too high to enable their products to enter the industrialized markets without special facilities; (b) those that would be highly competitive from the outset. The first group would need constant help until they adapted themselves to the conditions of international competition, while the second group would also be given access to the industrialized markets, but with the requisite safeguards to prevent serious damage from being done to local production.

596. The proposals made by Mr. Brasseur would be put into effect in the following way:

(1) Acting singly or as part of a regional grouping, the developing countries would indicate the local industries that need assistance, that is, the types of production which should be given preferential import treatment by the more developed countries.

(2) Each case would be reviewed by a joint committee composed of an equal number of representatives from the exporter and importer countries concerned. On the lines of the committee's conclusions, the importer countries would then grant selective tariff reductions favouring the sale of the relevant products on their markets. Although such concessions would not be reciprocal, their long-term effectiveness should be watched over by mutual agreement. The beneficiary industries to be created or promoted in the less developed countries should be fitted to compete eventually on a normal footing in the world markets, and should be established on a basis that is economically, technically and socially sound. The protection that they would enjoy in their home market would have to be substantial and even absolute at the beginning, but would thereafter gradually decrease until, while still keeping a reasonable margin of safety, they would be exposed to the full force of foreign competition if they failed to maintain a high level of productivity.

(3) Preferential treatment for the output of the selected industries would take different forms; it might consist in the partial or total suspension of duties; lower duties up to a given volume of imports (tariff quotas); supplementary non-tariff devices, etc. To achieve their aim, the preferential measures should be temporary and scaled downwards. In other words they should be applied only until the beneficiary industry had consolidated its position on the world market, and should be progressively reduced as it gained strength.

597. The importer countries granting the preferences should be in a position to safeguard their industrial structure against the market slumps that might be produced by the purchase of goods at abnormally low prices. As it is out of the question to close the market to such goods, these contradictory requirements must be reconciled. It will no doubt be possible to do so as market disruptions are usually short-lived.

598. One way would be to establish a joint system of compensatory rates to cover part of the difference between the normal market price for goods and the exceptionally low price at which they are supplied by the developing countries. The compensatory rate would be applied either when the goods leave the producer country or when they enter the consumer country.

599. The rate would be fixed by specialized joint committees similar to those envisaged in (b), which would modify it periodically in accordance with the evolution of the particular market. The modifications would be flexible and be made in the light of the ultimate objective—that of normalizing and expanding the markets.

600. The revenue from the compensatory tax would not accrue to the benefit of the importer country but would be added to a fund for the development needs of the exporter countries concerned and would be used by common agreement.

601. This plan, which has been widely publicized, reflects the developing countries' hopes of receiving preferential treatment for their manufactured goods
in order to obtain a foothold in the industrialized markets. Such preferences are necessary in the majority of cases, but the fact that only a certain number of industries will be selected limits the scope of the system considerably. What the developing countries need is the certainty that their over-all industrialization effort, if properly designed for export purposes, will meet with a favourable reception in the industrialized markets. Given this assurance, they can embark upon the extensive process of reconstructing their foreign trade, but for them to be able to do so, it is essential that industrial exports should have the widest possible market. And this primordial requisite will not be satisfied by the concession of preferences to a few select industries.

602. Another source of concern is the opportunity which the method of selection suggested by Mr Brasseur would give to the developed countries to chart the course of industrialization to be followed by those that are less advanced. It is feared in fact that the eventual part to be played by the industrialized countries in decisions of supreme importance for the developing countries may lead to the exercise of undue influence, disputes and suspicion.

(3) The Mansholt Plan

603. On 5 November 1963, the Economic Commission of the EEC, on the initiative of Mr. Sicco Mansholt, its Vice-Chairman, submitted a set of proposals designed to accelerate the equalization of cereal prices in the Community. According to these, domestic prices for cereals, which are being fixed individually by the EEC member countries and will eventually converge in 1970, would be equalized once and for all on 1 July 1964. For instance, the price of wheat would be set at a point midway between the French and German levels, which involves raising the former 17 per cent and lowering the latter 11 per cent. High prices would be maintained for feed crops on the assumption that they would continue to be in great demand on the Common Market.

604. The impact of price equalization in certain countries would be offset by (a) compensatory payments on a decreasing scale during a limited period to the agricultural sector of the countries where the price is lowered (e.g., Federal Republic of Germany); and (b) consumption subsidies, also on a declining scale, to the agricultural sector of the countries where the price is raised (e.g., France).

605. Another question dealt with by the Mansholt Plan is the organization of world agricultural production. Its main aim, at least in principle, is to stabilize agricultural protection at its present levels in each country. Any change would have to be decided by international agreement every three years. Should one country raise its domestic prices beyond the limits set by the agreements, it would have to offer some compensation to the others.

606. The Parliament of the Community considered the Commission’s proposals based on the Mansholt Plan at its session on 27 November 1963 and resolved, in principle, to endorse the introduction of a common price and the abolition of countervailing duties in inter-Community cereal trade. It recommended, however, that an evaluation should first be made of possible financial, social and trade policy repercussions. On the same occasion, it pointed out that the negotiations of the Six within GATT during the Kennedy round would be valid only if agreement had previously been reached on a joint over-all agricultural policy and a concomitant price policy. EEC could not enter into any commitments until it had received proper assurances, particularly with respect to the organization of the world markets and the ensuing effects on their stability.

607. It is too soon to express an opinion on a programme which is being discussed and analysed at the present time by the Community. But a few comments at this juncture are permissible:

(a) If the common price is not fixed at the level of the less efficient agricultural economies, it may lead to the beginning of rationalization in the Community through the gradual elimination of marginal farming;

(b) As the price is likely to be fixed at a higher level than in the lower cost countries, such as France, an extra incentive should be offered to production there;

(c) It cannot be determined whether the effects of (a) and (b) will be to increase or to decrease the volume of cereals in the Community, but in any case some compensatory redistribution is to be expected;

(d) It is to be inferred from this that, even if production is rationalized within the Community, it is doubtful whether the external repercussions of its agricultural policy would be very different as a result of the establishment of a common price level;

(e) The adoption of a common agricultural policy would give the Community a unified standpoint with which to embark upon the Kennedy round, but the results of its negotiations with the United States on the organization of world markets are unforeseeable.

(4) The economic programme of the Atlantic Institute

608. A study by Mr. Pierre Uri dealing with various aspects of world economic policy has been issued under the auspices of the Atlantic Institute. It takes a fresh standpoint on the questions of surplus disposal policy and assistance to the developing countries which are of vital concern in connexion with the problem of international markets for agricultural commodities. The programme of the Institute, which has aroused world-wide interest, is based on the fact that United States exports of surpluses in the form of free or quasi-free gifts alone amount in value to $2,000 million, and that the tempo of production and consumption in Europe is bound to result in further surpluses. At the same time, the world’s requirements of cereals, fats and proteins that remain unsatisfied amount to some $5,000 or $6,000 million annually.

609. The author claims that assistance in kind is instrumental in destroying the market. It is more apt to aid the producers of the surpluses than the

44 Europe, Common Market/Euratom, No. 1708 (Luxembourg, 27 November 1963), pp. 5-6.
recipients, since, through price relations and production incentives, it tends to preserve the rigidity that makes it impossible to carry out the necessary re-orientation. Such donations are also liable to discourage local production in the beneficiary areas. Moreover, the fact that the agricultural policy of the major centres is developed and consolidated by favouring domestic production through constant price rises while pushing down world market prices is steadily widening the gap between one side and the other.

610. This situation calls for drastic remedies. For Mr. Uri, one way would be to change the bases on which the major centres currently pursue their policy of food donations and domestic production subsidies. The first objective should be to stabilize, with the aid of the developed countries, the insolvent markets constituted by nearly all the countries with a food deficit. Instead of donations in kind, the developing countries should be given cash which would have to be spent on the purchase of foodstuffs. Thus the beneficiary countries would gradually win back their freedom of choice as regards the nature and origin of the products. Demand would again guide production instead of being led by it as at present.

611. The present system of financing by means of subsidies is apt to start a considerable movement on the same lines. Europe and the United States together pay out $7,000 million annually for agricultural subsidies, price support and surplus liquidation. With food donations discounted, they spend less than $4,000 million a year in helping the developing countries. If they were to transfer, for the purpose of lending assistance in cash, an increasing proportion of the $7,000 million that are yearly assigned to their agricultural sector, the expansion in solvent demand would raise world prices and the income accruing to farmers would be self-sustaining.

612. Mr. Uri's view of the problem therefore calls for a reorganization of the world market on the basis of the solvent demand generated by the aid given in cash to the countries that now subsidize their agricultural production. But he omits to explain how the domestic agricultural production of the industrialized countries would develop thereafter, or whether the new conditions would really lead to a relaxation in their protectionist policy. Another question to be answered is whether the countries with small surpluses or none at all would be willing to allocate part of the sums they currently invest in their own agricultural production for the creation of a market which is of no particular concern to them and in which they will never be able to compete with the low-cost countries.

613. The programme of the Institute also deals with direct assistance for development purposes, which it links up, through stabilization formulas, with the balances of payments of the developing countries which export tropical products and raw materials that are subject to violent price fluctuations or to structural deteriorations. The essence of these formulas is that the developed countries should contribute to a fund in direct ratio to their national product and per capita national income, a system which has already been advocated in the plan of the Development Insurance Fund. As regards the distribution of the assistance, it would be wise to graduate it in accordance with the evolution of the recipient country's terms of trade. It is of course extremely difficult to make specific suggestions in this field that could feasibly be put into practice in the near future.

(5) The United Kingdom proposals to limit subsidized domestic production and to regulate imports of grains and other agricultural commodities

614. The United Kingdom has recently informed the principal exporter countries of its intention to make some changes in its agricultural policy and system of importing grain and other commodities. These modifications, which the United Kingdom authorities would like to negotiate on a bilateral basis, would take effect on 1 July 1964, and are as follows:

(a) The levying of quantitative restrictions on domestic production helped by price supports. Amounts produced in excess of the limits would have to be sold at market prices. The United Kingdom experts hope in this way to discourage marginal production;

(b) The fixing of a minimum price for imports which exporters would undertake to observe. This price is the subject of bilateral talks between the United Kingdom authorities and a number of exporter countries.

615. In the case of wheat, for instance, the United Kingdom favours a price that is slightly above the minimum established by the relevant international agreement. Special measures would be taken to adjust the price of the exporter countries that remain outside the system and sell their produce at low prices, probably variable countervailing charges of the same kind as the EEC variable levies.

616. The United Kingdom is of the opinion that this system would improve world market prices and pave the way for international commodity agreements. Official consultations have begun with most of the grain exporting countries, as well as with the Netherlands on pork meat and dairy products.

617. This initiative has two main objectives: to lessen the fiscal burden of price supports and to rationalize production. The first would be achieved by limiting compensatory production and narrowing the margin of difference between high domestic prices and import prices which would thus be virtually forced up.

618. Another implicit aim would be the creation of a favourable climate in the United Kingdom for a further approximation to the measures that are applied to agriculture in EEC, should the moment come to renew its attempt to join the European Common Market.

619. As a transitional stage between current protectionism and an open market system, the substantive aims of the United Kingdom project seem to be reasonable. But as the scheme would be administered by the United Kingdom, no opinion can

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be formed as to its effects without some knowledge of the specific limits set for domestic production enjoying price supports and of the prices established for imports. Unilateral administration of both aspects involves a risk, in that very high limits might be set for the production enjoying price supports and for marginal production as well. Unsatisfactory prices might also be established for imports.47

E. THE OVER-ALL ROLE OF THE UNITED NATIONS VIS-À-VIS THE TRADE PROBLEMS IN THE DEVELOPING COUNTRIES

620. The United Nations has always taken an active part both in the study of basic trade and development problems and in many of the attempts to solve them.

621. The efforts of the United Nations agencies and Secretariat have culminated in convening the Conference on Trade and Development and its preparatory meetings. They have long been engaged in examining the situation of the world economy and that of the various regions, based specifically on studies by the regional commissions, and have insistently drawn attention to the crucial effect of foreign trade on development. The Conference at Geneva provides an exceptional opportunity to set out, both specifically and within a world context, the problems and prospects which to a large extent have been identified and analysed by the United Nations agencies concerned.

622. In addition to a general analysis, these agencies have taken part also in the specific study of the position with regard to the main primary commodities and have sponsored several of the initiatives and achievements in respect of commodity agreements.

623. Since the establishment of the Interim Coordinating Committee for International Commodity Arrangements in 1947, the Economic and Social Council, in 1953, set up the Permanent Advisory Commission on International Commodity Trade, which the following year became the Commission on International Commodity Trade. Study groups operate under the supervision of the Interim Coordinating Committee for International Commodity Arrangements and, while at the same time representing the preparatory stage of international agreements, fulfil a permanent role for purposes of intergovernmental action.48 Each individual group is composed of representatives of countries substantially interested in the production, consumption or exchange of a specific primary commodity. It investigates all these aspects and reports to the Member Governments.

624. At the present time study groups are in operation for cacao, coffee, cotton, lead and zinc, rubber and wool. The existence of an International Coffee Agreement and its appropriate council may put an end to the group for this commodity.

625. Any action by the commissions and groups has in every case been subject to prior international commodity agreements referred to elsewhere in this document, which cover the following items: wheat, sugar, coffee and tin. An international agreement on olive oil has also been concluded to which no American country is a party.

F. VALIDITY AND EFFECTIVENESS OF THE RULES IN FORCE

626. The brief description of the major international efforts and ideas for improving the conditions under which the developing countries’ export trade must develop should be completed with some more detailed considerations concerning the shortcomings of the general regulations now in force for international trade. Such provisions endeavour to create special new conditions, but in general are far from beginning to function effectively, or else they do not take into account the situation and needs of the Latin American countries.

627. Until such time as the necessary changes are effected, the developing countries will have to follow a realistic policy developed along parallel lines designed to obtain, on the one hand, the establishment of a suitable institutional framework for their particular needs within which the basic rules will be duly complied with, and, on the other hand, the enforcement of measures designed to mitigate or counteract the serious repercussions of the existing circumstances surrounding the world trade policy on their own economies.

628. The most important regulations in force that should be considered from this angle are GATT’s, since they embrace about 80 per cent of world trade. Are they the most appropriate? Do they assure attainment of the goals which the developing countries have set themselves?

629. It must be recognized that in the last fifteen years GATT has made a useful contribution towards preserving some order in world trade. The maintenance of a considerable degree of tariff stability, the various negotiations on tariff reductions—which have taken place mainly between developed countries—and the progress achieved in eliminating quantitative restrictions on industrial products have favoured the expansion of trade and have also yielded some benefits to the developing countries. The rule concerning the multilateral nature of trade treatment through the general application of the most-favoured-nation clause represented a contribution by GATT to the smooth flow of international trade. These achievements have been possible partly because each Contracting State was aware that the limitations upon its freedom of action would have their counterpart in limitations on the others. Moreover, by the granting of waivers from the generally applicable obligations, these limitations were made more bearable for individual countries. In addition, the special needs of the developing countries regarding the regulation of their imports were to some extent met when the GATT rules were partially revised in 1955.

630. The achievements of GATT cannot, however, hide the uselessness of its efforts to maintain the developing countries’ traditional exports at certain levels and stimulate them in the best possible way for

47 France has pointed out that the United Kingdom’s proposal to set the price of wheat a little higher than the floor price specified in the pertinent international agreement is unrealistic. In fact, at the present time, the world market price is much higher.

achieving progress. Rules which are very important to the developing countries have not been observed by major countries, and many of the rules themselves are not of a nature to maximise the developing countries' export prospects.

631. The failure to observe existing rules has been particularly evident in relation to agricultural commodities. GATT has thus been largely ineffective in checking the protectionist trend and the tendency to exclude imports which are manifest in most of the industrialized countries. While GATT rules were devised to apply in a practically identical manner to both industrial and agricultural products, their impact on the latter is being greatly reduced by the granting of extensive waivers to several countries, by a shift from one method of protection to another and by the non-observance in practice of the prescriptions. Committee II of GATT came to a similar conclusion when it stated that the extensive use of non-tariff restraints for agricultural protection "impaired or nullified tariff concessions or other benefits which agricultural exporting countries expect to receive from the General Agreement, and weakened or threatened to weaken the operation of the General Agreement as an instrument for the promotion of mutually advantageous trade." In spite of the frequency of the discussions on agricultural products in GATT, very few rules are applied with respect to them. As already pointed out in 1958 in the Haberler report on Trends in International Trade, the countries affected "can legitimately claim that they are not getting the treatment for which they bargained when they first became contracting parties to GATT."

632. Equally serious is the problem posed by the trend toward regional groupings. Initially, GATT had established general unconditional most-favoured-nation treatment, with two exceptions which were narrowly circumscribed: preferences existing then were tolerated, but new deviations from most-favoured-nation treatment were accepted only as part of a "plan and schedule" for the formation of a customs union of free-trade area "within a reasonable length of time." The remaining trade between the constituent territories would be freed, and the barriers in respect of third countries should not, on the whole, be "higher or more restrictive than the general incidence" of the barriers existing prior to the formation of the regional grouping. These were deliberately strict conditions designed to prevent deviation from GATT's fundamental most-favoured-nation principle, but it can hardly be said that the countries composing the European Economic Community are strictly obeying them.

633. In the first place, everything points to the fact that the general incidence of the barriers in the trade of third countries, as it will remain in the EEC common external tariff, will be higher than that of the previous national barriers. In order to calculate the common external tariff, the arithmetical average of the national tariffs has been chosen as a basis rather than their weighted average. In doing so, the previous trade currents which were naturally greater in countries where the tariffs were low, were not sufficiently taken into account. The question of whether this conforms to the provisions of Article XXIV, 5, was left open in GATT. There is every indication that the level of general incidence will be much higher than the previous one. A foreign trade system based on variable levies completely isolates the internal market by giving absolute priority to domestic production, while depriving third countries even of that limited certainty of access which was ensured by the previous quantitative restrictions. Whatever might be the theoretical perfection of the system chosen, in practice the collective protectionism it establishes must lead to a considerable acceleration of the previous national protectionist trends. Yet, the provision of Article XXIV, 5, of GATT is precisely designed not to permit derogation from the most-favoured-nation clause if free trade within the regional group is achieved by excluding third countries.

634. In the second place, the Association between EEC and eighteen African countries does not provide for a plan or schedule for the establishment of a free-trade area within a reasonable length of time. Such a schedule exists only with respect to the eighteen's exports to EEC. The latter's exports to the African countries will have to overcome the tariff barriers which each of the eighteen maintains or establishes. That no reciprocal free-trade area can be established is the inevitable consequence of the different stages of development of the European and African partners of the Association. Under such circumstances, it does not seem possible to invoke Article XXIV, 5, of GATT to derogate from the most-favoured-nation clause. Since the African countries do not commit themselves to eliminate substantially all restrictions and tariffs, EEC—and particularly the Federal Republic of Germany and the Benelux countries, hitherto the third countries' best customers—cannot grant preferential free access to imports from the associated African countries without contravening GATT rules. Nor do such rules permit the eighteen to extend to the other members of EEC the preferences granted to the former French Union. If this is done in spite of such rules, Article I of GATT is clearly being contravened.

635. While GATT has hitherto not been effective in enforcing its own rules with respect to its basic most-favoured-nation principle, it is no less true that the examination of EEC's compatibility with Article XXIV has merely been suspended and could be resumed at any time. In the meantime, however, plans and policies in violation of these principles are being consolidated: the regulations concerning agricultural commodities are progressively coming into force and the preferential system between the EEC and the eighteen African countries has been confirmed in a new Agreement. Turkey and the EEC have entered into a form of association which also provides for unilateral preferences over a long period without any firm and definite commitment to form a customs union. Moreover, negotiations are under way to include other African countries in this system of association. That the damaging effects of this have not yet been fully felt

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is not a conclusive argument, since it may be some
time before advantage can be taken of the possibilities
of trade diversification that the association offers the
African countries.

636. Subsequent to the establishment of EEC,
other regional groups have made rather broad
interpretations of the exceptions permitted under Article
XXIV of GATT, even if such interpretations concern
relatively minor or potentially less harmful points.
Be that as it may, since the EEC countries absorb
one-fourth of world trade, the establishment of their
regional grouping subtracted a sizable portion of that
trade from the effective and complete application of the
most-favoured-nation clause. It would therefore
have been necessary to abide strictly by the conditions
set forth in Article XXIV.

637. It is not the purpose of this study to question
the obvious economic advantages that can be gained
by a better division of labour or the political hopes
that may be encouraged by the formation of regional
groupings, but merely to underline that those objec­tives
should not be achieved by newly distorting the
structure of world trade and particularly the already
fragile trade of the developing countries. The most-
favoured-nation principle was meant to prevent this,
but the pragmatic spirit which seemingly pre-
cludes the most-favoured-nation principle in GATT has too often meant the acceptance, albeit reluctant, of accomplished facts, thereby detracting from the effectiveness of a rule which would have been one of the corner-stones for improving the position of the developing countries. It might be useful to recall that one of the chief aims of legislation is precisely to prevent the harmful effects which in fact are produced.

638. What is more, the present content of GATT
rules does not appear to be sufficiently adapted to
the solutions required for the trade problems of
developing countries nor for those of another group
of industrialized countries which do not operate
on the basis of a market economy. When GATT was
set up, many of the developing countries had not yet attained independent international status and the countries with centrally planned economies hardly participated in international trade. Furthermore, a large number of the developing countries—most of the Latin American nations, for example—preferred not to accede to it, generally fearing a curtailment of their power to control imports.

639. While the search for multilateral rules ap­plying to the specific needs of trade with the group
of countries with centrally planned economies is
just beginning, the problems which face the developing
countries with respect to their exports have been
actively discussed and studied by various organizations,
but have only led thus far to a few commodity agree­ments designed mainly, as has been seen, to meet
critical situations. As also noted in a separate part
of the present study, the process initiated by the
Haberler report was doomed to failure in 1963, when
several of the less developed countries proposed an
action programme for translating it into action, and
EEC rejected that initiative, thus preventing the
achievement of substantial results.

640. All this appears to indicate that new rules
can only be arrived at once there is general recog­
nition of the urgent and special nature of the develop­
ing countries' export problem and, consequently,
of the need for special positive rules for these coun­
tries and their products. At present, the legal principle
underlying GATT is to treat all countries alike,
regardless of their relative position. In this sense, for
instance, equal treatment for goods from all coun­
tries—with the exceptions referred to, which are also
applicable to all countries—limits the measures which
industrialized countries could adopt to favour exports
from the developing countries taken as a whole.

641. The necessity for differential treatment
presents itself not only with respect to the different
categories of countries, but also for the different
categories of products. In fact, the industrialized
countries acting through self-interest and to the
detriment of some developing countries have put
the principle of differential treatment into practice for
agricultural commodities of the temperate zone.
However, when it is a question of acting upon this same
principle with respect to tropical products which
affect large sectors of the developing countries' econom­ies, the resistance to satisfactory commodity
agreements tends to be insurmountable.

642. If the unsatisfactory state of affairs with
respect to the application of the present GATT rules
and the establishment of new obligations continues,
developments might follow a logical sequence. Thus, the
lack of growth of the developing countries' export pro­
cesses would induce them to push the import substitu­tion process beyond economically reasonable limits,
without taking advantage of the possibilities offered by
international trade. The protectionist trends in develop­ing countries and in the regional groupings would be
unduly stimulated and the desirable degree of competi­tive pressure generated by world trade would gradually be eliminated. It might so happen, too, that the develop­ing countries suffering the adverse effects of discrimina­tion would wish to restore the balance by favouring
products from industrialized countries that do not
practise discrimination. On the export side, the coun­tries with centrally planned economies might become
the object of pressing demands for an increase in their
trade with the developing countries. At the same time
the Latin American countries, for instance, which are
excluded from all preference areas, might be led to
request that they be granted preferences by indus­
trialized countries which thus far have not practised
discrimination.

643. Thus a trend could be instituted towards
three mutually exclusive preferential areas which
would unite parts of the industrial northern and parts
of the less developed southern hemispheres. At a
time when the political basis of most preferences is
disappearing with the achievement of ever more real
independence by the less developed countries, the
economic relationships of the past would be strength­
ened and perpetuated. Unless GATT succeeds in
consistently improving the present situation, there
may be an increase in mutual arbitrary discrimination
at the very time when it has become imperative
to organize world trade on a rational basis in con­
formity with general principles and new regulations.
Chapter V
REQUISES FOR A NEW STRUCTURE OF INTERNATIONAL TRADE
AND WAYS OF ACHIEVING SUCH A STRUCTURE

A. GENERAL PRINCIPLES APPLYING TO NEW RULES OF INTERNATIONAL TRADE

644. At the end of chapter I a list was presented of the main objectives of what would in fact constitute a complete policy covering development, foreign trade and international financial co-operation in support of the efforts of the developing areas to achieve economic growth. On the basis of those objectives, and in the light of the diagnosis made in the other chapters, the requisites for the success of such a policy must now be defined in terms of specific proposals on courses of action.

645. This entails consideration of a number of fields, some of a general nature, and others covering trade with certain areas or in individual products. The first type relates mainly to the new rules that should govern the future course of world trade, to the financing of trade and development, and to the institutional organization that could most effectively assist, at the international level, in achieving the objectives and rules drawn up. Among the more specific questions are, firstly, those relating to trade between the various developing areas, and trade between those areas and the centrally-planned economies, and, secondly, those concerned with the groups of products that constitute the basis of Latin America's traditional trade (tropical and temperate-zone agricultural commodities, fuels and mineral ores) and other products that could be the basis for a greater diversification of the region's exports (manufactured and semi-manufactured goods and certain items of invisible trade, such as maritime transport). Each of these subjects will be dealt with in the sections that follow, the aim in all cases being to synthesize the conclusions and recommendations that emerge from this analysis and from the diagnosis presented in earlier chapters.

646. These recommendations relate in some cases to immediate needs since they concern urgent problems and difficulties that can and must be dealt with promptly. Other recommendations concern long-term objectives that represent final solutions, but do not in any way imply that immediate measures can be postponed. On the contrary, these should be undertaken at once, on whatever gradual and continuing basis may be most suitable.

647. This approach permits action at the two levels at which Latin America's foreign trade problems must be considered, the rapid expansion of external earnings that will have to come from the traditional trade flows, and at the same time the steady growth of these earnings, on a scale compatible with the requirements of more rapid economic development, that must derive from a greater diversification of the region's exports and the expansion of its markets. Consequently in what follows, the reference is not to a series of unrelated needs, some of which can be met while others are rejected, but of singled components that together make up what must be regarded as a new, and far-reaching and integrated policy for international trade. This policy must have one fundamental aim, taking precedence over any other consideration, and that is that international trade must in future be the main channel through which the industrial countries express their support and sense of solidarity with the less developed countries.

648. The aim must be to evolve a world pattern of production and trade that makes full use of the resources available and gives priority to the urgent needs of the developing countries. For this purpose the first contribution of the developed countries should be to eliminate the obstacles that hamper the trade of the developing countries, and seek practical formulas to increase the latter's export earnings in a manner that parallels the trade improvements achieved by the groupings in the developed areas.

649. Instead of intensifying and expanding the preferential arrangements of the past, and thus maintaining what tends to divide the developing countries, the aim should be to encourage recognition of the common interests of the developing countries and to facilitate the establishment of joint programmes of action by those countries. Similarly, an attempt should be made to facilitate the establishment throughout the world (in both the developed and underdeveloped areas) of regional common markets, but within a framework of world trade that would permit such movements towards regional integration to develop along lines other than those of self-sufficiency, thereby making it possible to reap the benefits that the proper division of labour on a world scale could offer.

650. If trade is to expand with sufficient intensity and scope to be of real assistance to the developing countries, there must be a growing measure of integration in world trade, in which both the market and centrally-planned economies must participate.

651. Although all these aims cannot be achieved at once, it is essential to ensure now that no new obstacles are placed in the way of their realization and that the first important steps are taken to achieve them. It is not enough to agree on a diagnosis of the problems besetting the developing countries, or merely to adopt general statements of desirable aims, as has so often been done already. What is needed is to establish specific rules and programmes that involve actual commitments. This requirement for the work of the United Nations Conference on Trade and Development has been expressly set forth in Economic and Social Council resolution 963 (XXXVI), which states that "the fundamental problems of developing countries are well identified and that what is now required is a universal readiness to act and generally
to adopt practical measures aimed at increasing exports and export earnings of developing countries". 652. Although the implementation of such decisions mainly depends on specific undertakings by the industrial countries, these alone will not suffice to improve the situation of the developing countries. If positive results are to be obtained, every fresh obligation assumed by the industrial countries must be accompanied by decisions and additional efforts by the developing countries, including the vigorous prosecution of their respective regional integration plans. In other words, the aim must be for the developed countries, by rectifying past trends, to undertake to establish the external conditions that will make it possible for the efforts made by the developing countries themselves to bear fruit.

Conclusions

653. What the foregoing implies in terms of immediate fundamental decisions and basic guiding principles and rules that should govern international trade in future may be summed up as follows:

(1) The United Nations Conference on Trade and Development should set itself as a goal the establishment of a series of rules and specific measures to promote the export earnings of the developing countries. When the Conference deals with subjects with respect to which agreement on such rules and specific measures cannot be expected, the aim should be to formulate guiding principles, to establish suitable instruments and mechanisms for their implementation, and to undertake to put them into practice after the Conference.

(2) The basic objective of any new measure in the field of international trade should be to assist the developing countries to achieve, and maintain on a continuing basis, at least the growth rate specified in the programme of action for the United Nations Development Decade. This could be brought about by rules to ensure an expansion of international trade such that it would cease to be instrumental in blocking the developing countries’ efforts to attain a more rapid and sustained economic growth.

(3) One requisite for such an expansion is a growing measure of integration in world trade, within a system of co-operative coexistence between the countries with market economies and those with centrally-planned economies.

(4) The particular characteristics of the exports of the developing countries call for the establishment of special rules for those countries and their products. In place of a formal equality of treatment that makes no allowance for the unequal relative development of countries, a differential treatment would be needed based on the requirements of the developing countries. This implies a redefinition of such basic concepts as the principle of reciprocity and the most-favoured-nation clause, to ensure that in future they do not stand in the way of the granting of the necessary concessions to the developing countries.

To this end, the principle that the developed countries should grant preferences to the developing countries without requesting or requiring reciprocity must be accepted as the foundation-stone for a new structure of international trade. The application of the most-favoured-nation clause must also be regarded as susceptible of restriction in such a way that preferences can be granted by the developed to the developing countries, and by the latter to one another, without their being made extensive to the industrialized countries in either case.

(5) So that the commitments to be undertaken in favour of the developing countries may be comparable, the new rules and measures should apply equally to all the developed countries with market economies, measures of equivalent effect being established in respect of the industrial countries with centrally-planned economies.

(6) All existing preferences between certain of the developed and developing countries should be abolished within a period appropriate to the type of product concerned, with due regard for the need to enable the beneficiary countries to adapt their economies to the new rules and conditions of international trade. In place of the preferences of the past, a new pattern of preferences should be established that would benefit the developing countries as a whole, in line with the requirements of the world of today.

(7) In view of the pressing nature of the problems besetting the developing countries and the magnitude of the deficit in their export earnings, piecemeal measures cannot be effective. Consequently the measures set forth below, relating to various types of specific products and problems must be regarded as components of a single integrated policy on world trade.

B. TRADITIONAL PRIMARY COMMODITY EXPORTS

654. It is worth while stressing once again that the real value of decisions taken to change the structure of world trade, in order to promote the growth of the developing countries, depends above all on the effectiveness of such decisions as regards the traditional primary commodity exports. These constitute a very high proportion of the total exports of the less developed areas, and consequently they will continue, in the immediate and near future, to be the determining factor as regards the export earnings of the developing countries. Moreover the long-term aim of reducing the over-riding importance of the traditional primary commodities, and effecting a progressive diversification of the exports of the developing countries, depends, for its achievement, on an expansion of trade in these products to obtain the resources essential for meeting the needs of internal development and the establishment or expansion of the activities that will permit this diversification of exports. Thus the two measures are inseparable, and neither can constitute a satisfactory solution in the absence of the other.

655. As previously stated, the nature of the obstacles involved varies widely from one primary
category of products, which are exported by the products. Generally speaking, trade in the first in this final summing up, again to consider separately commodity to another. Consequently it is necessary, at least the main categories, tropical commodities, temperate-zone agricultural commodities and mineral products. Generally speaking, trade in the first category of products, which are exported by the developing countries, but also—as in the case of sugar, tobacco, oil, rice and cotton—produced in considerable volume and on a protectionist basis by the industrial countries, poses problems similar to those relating to the temperate-zone agricultural products. The measures that must be taken with respect to tropical products should therefore be examined in connexion with products from the temperate zone.

(1) Tropical products

For twelve of the twenty Latin American countries, the possibility of maintaining a satisfactory rate of development depends largely on the fate of their tropical export products in the world market. As previously stated, in existing circumstances the outlook for the main tropical products on the world market is very uncertain.

In the particular case of the Latin American countries, four main factors contribute to this uncertainty: the discrimination against the region's tropical products in some of the main markets, the high internal taxes on their consumption in some of the large importing countries, and the steady decline and violent fluctuations in their prices. The serious problems that have arisen as a result of these factors call for fundamental solutions in each of the four fields.

The problem of discrimination is particularly difficult for Latin America, since it involves questions relating to other developing areas, whose desire for better opportunities for rapid economic growth is equally legitimate. Nevertheless it must be regarded as an essential element in any new international trade policy that it should strengthen the position of all the less-developed countries to an equal extent.

The discrimination now existing in this field is highly prejudicial to Latin American interest, and is one more form of discrimination added to others that have been applied for a number of years. The extension to additional countries of the old preferences applying in the franc zone, combined with the existence of a system of Commonwealth preferences for over thirty years, has had the effect of virtually excluding Latin America from any preferential arrangement, and leaving it at a disadvantage compared with other developing areas.

This state of isolation cannot continue. Its persistence, and even more its extension to other countries, would place Latin America at a fundamental disadvantage in its struggle to improve its trade conditions. Such discrimination, imposed unilaterally at a time when Latin America is willing to continue granting equal import facilities to all the industrial countries so that they can take advantage of its markets, involves a radical contradiction.

The Latin American countries will not necessarily be forced to revise their principle of non-discrimination with respect to the industrial countries. On the other hand, the special help given to certain areas—the EEC's African associates, for example—should not be at the cost of the aspirations and rights of other under-developed areas. The joint objective of all developing areas should be rather to expand the world market for their common products.

An effective undertaking by the industrial countries to remove restrictions and limitations on imports and consumption of a range of products could result in a substantial increase in demand within a short period, and thus open up increasing export opportunities for all the developing countries, on an equal footing and to the benefit of all.

This is the basic question, in relation to which the problem of discrimination in respect of tropical products can and must be solved. Abolition of such discrimination would constitute, not an isolated measure, but part of a new international trade policy, whose effective application for the benefit of the under-developed world as a whole calls for unanimous general agreement on certain basic principles, which preclude the maintenance of such preferences.

The need to establish the principle of equality of access by the developing countries to the industrial country markets, and the serious and pressing nature of Latin America's foreign trade problems, make it imperative to adopt immediate decisions in this respect. Consequently particular undertakings to effect partial and temporary reductions, as distinct from setting a definite date for abolition, would prove inadequate.

Although the agreement between the EEC and the African States is not due to expire until 1968, acceptance of the Kennedy round proposals to abolish all duties on tropical products (which would involve the elimination of tariff preferences) would mean that the desired aim could be achieved fairly soon. The time-limit for this purpose could be 31 December 1965—the same date as that suggested for the elimination of the internal taxes referred to in subsequent paragraphs. In addition to customs duties, other discriminatory measures will have to be abolished, such as quotas, measures discriminating against monetary areas, tariff quotas, preferences for imports from particular sources in the purchases of State bodies or autonomous public institutions, etc. A decision of this nature need not endanger the African countries' prospects of maintaining an increasing flow of exports in the future, in view of the expected expansion of the industrial country markets once those countries have undertaken to adopt the appropriate measures on the present restrictions and limitations.

One such restrictive factor is constituted by the internal taxes applied in some of those countries on imports or consumption of basic tropical products. It has already been pointed out that a large potential

*See the comments on bananas in chapter II.*
addition to trade would be involved in the removal of such charges, which now severely limit demand. It is not hard to justify their elimination in the context of a policy aimed at supporting efforts to increase the economic growth of the developing countries. Even if the effect of such taxes on demand were less than that suggested in some duties and reports, it is none the less substantial and it is unreasonable that they should be imposed on just those products that are exported by the developing countries. Fiscal habits of the past should not prevail over the needs of the present day, especially since it is a comparatively simple matter for the developed countries to replace such taxes by other means of obtaining revenue.

667. One way would be for the developed countries to undertake to eliminate internal taxes and revenue duties on certain products within a given period. In this context the date proposed in the GATT Programme of Action seems a reasonable target, that is, 31 December 1965.

668. Such undertakings should not be confined to basic commodities but should also extend to certain finished products, whenever the products in question account for a high proportion of the total value. It would thus be possible to avoid severe restrictions on demand deriving from the high price of the final product manufactured from the primary commodity due either to internal taxation or heavy tariff protection. Such charges should be no larger than those applying to other industrial products manufactured by the developed country itself. This measure would eliminate a further source of import restrictions. More specifically, the aim should be to agree on a rule providing that duties and taxes on finished products, of which a given percentage of the value is accounted for by tropical products from the developing countries, must be reduced to a reasonable level, that there must be no discrimination against such products, and that the establishment or expansion of an industry manufacturing such products for export, in the countries that export the raw material, must not be hampered or discouraged. The last provision is particularly important in respect of certain processed items (such as soluble or instant coffee) that could well become large-scale exports. This point will be referred to again later in connexion with the exportation of manufactured and semi-manufactured goods.

669. Similarly, it is necessary to consider in detail the reasons for the substantial mark-ups applied in the distribution of certain primary commodities in the industrial country markets. There is often a wide margin between the c.i.f. price and the final consumer price of certain tropical products, even after taxes have been allowed for, and the difference is far greater than could be accounted for by the reasonable real cost of distribution. The reduction of such margins would also permit an expansion of demand. As this aspect of the problem has not been sufficiently explored to permit specific rules to be proposed, it seems essential to undertake a thorough analysis of the causes of this situation as soon as possible.

670. The foregoing factors relate in the main to possibilities of increasing the volume of exports. The question is complicated by the basic problem of prices, whose behaviour has been particularly unfavourable for the developing countries in respect of certain tropical products.

671. In this field commodity agreements are a suitable instrument for correcting, at least to some extent, the adverse effects of the market forces, especially in the case of products which, like tropical commodities, are threatened by the risk of excessive production in relation to a slow-growing demand. Consequently the question has to be considered in some detail.

672. Thus far it has been very difficult to reach agreements on tropical products. The only one in force at present is the Coffee Agreement, which covers nearly all international transactions. On the other hand, the agreement on sugar (dealt with more extensively in the next section) has no practical effect at present. This is due partly to the consumer countries' natural lack of interest in changing conditions that are generally favourable to them, and also to the difference in bargaining power that sometimes exists between importers and exporters.

673. Another unfavourable factor is that for many of the developing countries the fate of certain goods is vital to their total earnings in foreign currency, whereas for most of the importing countries the same products represent only a fraction of their very diversified purchases abroad.

674. Furthermore, it is difficult to overcome the resistance offered to the conclusion of agreements when the products concerned are exported by developing countries only. Coffee constitutes an exception, perhaps because its situation was particularly serious since the relevant agreement was first signed between the Latin American producers and then extended formally to include most of the importers, once the exporters had achieved a united front. However, in the operative stage of this agreement, serious problems seem to have arisen as regards the strict fulfilment of its terms.

675. The recent failure of the Cocoa Conference, for which a draft agreement was worked out over a period of many months, is attributed by the producer countries to a lack of understanding on the part of the main importing countries. The latter proposed a minimum price 20 per cent lower than the final compromise proposal made by the exporters.

676. The crux of the problem is that thus far individual commodity agreements have, by their very nature, not been suitable for dealing with structural problems, and attack only the short-term difficulties. In addition the negotiation of such agreements has nearly always coincided with a grave trade crisis in respect of the product concerned that affected the exporting countries. As a result they have naturally tended to consolidate situations unfavourable to the latter.

677. It is extremely difficult for the interested parties to come to an agreement on prices, which constitute the crucial problem of the present distortions.
of world trade. Moreover the agreements, in their present form, do not make much attempt to deal with problems that have a decisive effect on the price-formation process (preferences, discriminatory measures, restrictions, high taxes, etc.). But, despite their limitations (described in some detail in earlier sections), agreements on tropical products undoubtedly represent a means of controlling market forces that, left unchecked, would continue to operate to the great disadvantage of the producer countries.

678. Thus far the agreements in force cannot be described as having had any other effect than to forestall an even more marked decline in the prices of the products concerned. However, the developing countries must obviously insist on the need for broad and ample support whenever circumstances make it advisable to balance production and consumption by artificial means. It is possible that with the measures to abolish restrictions and taxes referred to above, the market in a number of these products may recover spontaneously. Until this happens, and perhaps even after it has, multilateral control of the market will in many cases be required.

679. Be that as it may, the main aim of any agreements conceived as an integral part of a new international trade policy must not be confined to stabilizing temporary conditions, but must include an attempt to repair the deterioration brought about by the harmful action of market forces. Moreover, in the event of a real rise in prices, the producer countries should try to ensure that no further imbalances develop between production and consumption, and should take account of the price elasticity and substitution elasticity of the product, in order to anticipate the effects that any price increase might have on the volume of demand.

680. All this calls for proper administration of the agreements. If the main purpose of the agreements is to protect the interests of the developing producer countries, they should not provide an excuse for countermeasures by the consumer countries when the natural market forces lead to increases in the price of the product concerned. In general such increases represent no more than a recovery to former price levels, either in absolute terms or in relation to the prices of manufactured products imported by the developing countries. Alterations in quotas, for example, should be governed strictly by the principle of protecting the interests of the producer countries. These factors, and the general operative aspects of the agreement, thus call for the co-operation and guarantees of the consumer countries.

Conclusions

681. The foregoing considerations can be summarized in the following main conclusions:

1) The high internal taxes that the industrial countries apply to the consumption of basic tropical commodities severely limit the expansion of demand, and deprive the developing countries of valuable opportunities to increase their exports. Consequently these taxes should be abolished no later than 31 December 1965.

2) The customs duties that the industrial countries imposed on imports of tropical products should also be abolished by a given date prior to 31 December 1965. Similarly, all forms of discrimination (quotas, long-term contracts, etc.) against tropical products exported from Latin America should be eliminated.

3) The abolition of discriminatory measures should also apply to those favouring other developing countries with respect to products manufactured from basic tropical materials such as banana meal, soluble coffee, etc.

4) The customs duties and internal taxes applied by industrial countries to final products containing a high percentage of tropical raw materials exported by Latin America should be reduced to a level that will not hamper the development of the industrial activity concerned in the country of origin, or restrict internal demand in the importing country.

5) A study by independent experts should be undertaken as soon as possible on the causes of the very high distribution costs, in certain industrial countries, of a number of tropical products exported by Latin America, with a view to suggesting measures to avoid or abolish unreasonable mark-ups.

6) Commodity agreements could constitute an effective instrument for regulating trade in particular tropical products, always provided that due emphasis is placed on the basic aim of improving the situation of the developing countries, and that, instead of confining attention to the stabilization of existing conditions, an effort is made to restore more favourable terms of trade, without overlooking the need to ensure that any ensuing price increases do not restrict the volume of demand.

(2) Temperate-zone agricultural commodities

682. The trends of temperate-zone agricultural commodities during the post-war period have led to a serious distortion of world patterns of production and consumption (see chapter II). The levels of protection afforded to agricultural producers in the developed countries, by a wide variety of methods, are substantially higher than for manufactured products. The resulting artificial stimulus to production has tended not only to reduce considerably the share of imports in the total consumption of the developed countries, but also to lead to a growing volume of subsidized exports. The effect has been to lessen the export opportunities of the developing countries that cannot compete financially with subsidized exports. Moreover, exports from the developing countries have often had to be effected at prices that have been artificially depressed by the variety of measures adopted by the developed countries. Consequently, the outcome of the prevailing tendency towards self-sufficiency in the developed countries is that current trade rules and principles are either not being applied or are being circumvented in some way.

683. All these factors are a source of great difficulty not only to the countries with the greatest comparative cost advantages as regards agricultural production—which include a number in course of development—but also to the economies of many
of the industrial countries through the levying of heavy charges on their consumers and taxpayers. Although social and national defence needs can justify certain special measures to protect agriculture, the measures now applied go far beyond what could be regarded as required by such needs. In fact, to take into account the social problems of marginal agricultural producers it is not necessary to raise domestic prices to the level of the less efficient producers, a level which is much higher than that of world prices, that is, the prices at which other countries can export the products concerned. By permitting and encouraging the survival and even expansion of high-cost agriculture in the developed countries, this protectionist policy makes it difficult for the developing countries to increase their production and thus lessens their chances of increasing their earnings.

684. There is already a wide gap between the income levels of the rural population (and also the total population) in these two areas of the world, and to continue with an excessively protectionist policy means that the gap will become even wider. The situation is aggravated by two other factors, the very much higher population growth in the under-developed world, and the difficulty of accelerating the transfer of the rural population in the under-developed countries to urban activities, the expansion of which is also hampered by severe restrictions as regards both production and exports.

685. The foregoing argument applies not only to the developing countries that export agricultural products, but also to the deficit countries that now depend more and more on the purchase of agricultural surpluses for their supplies. The extremely favourable conditions on which these surpluses are sold—long-term credit, payment in local currency, etc.—discourage local production. By meeting increases in demand that local production cannot meet immediately, the surpluses can undoubtedly play an important part in solving emergency problems in certain parts of the world where limited purchasing power makes this type of help appropriate. But there is a risk of discouraging the agricultural development needed for the balanced economic growth of the recipient countries, since it is difficult for an agricultural sector in the course of technological transformation to compete with heavily subsidized imports sold against long-term payments.

686. To achieve balanced development, the under-developed world must introduce in its production methods a similar technological revolution to that in the industrial countries. This means that the developing countries must import not only the food and raw materials needed to raise their standard of living, but also the technology and “know-how” that will enable them to attain that goal.

687. Once the problem has been stated in these terms, it must be decided what is to be done to restore a more equitable pattern of agricultural production in the world. There is no doubt that the final solution is to eliminate the protectionist measures of all kinds applied by the industrial countries until a level has been reached that is consistent with a system of fair competition between the various producer countries.

688. As a first step towards this objective it seems obvious that there should be an immediate undertaking by all the developed countries to set a ceiling to the body of subsidies and various forms of protection that would be consistent with the need to bring about a substantial increase in the external purchasing power of the developing countries through exports. This means that the developed countries whose protectionist policies have led to the distortion of international trade in this type of product must assume specific obligations to correct their agricultural policies, including the reduction of production supports and abolition of subsidies for agricultural exports.

689. Presumably the application of such measures will require the developed countries to take steps to transform the productive structure of their agricultural sector, including the transfer to other activities of those marginal producers who are unable to compete under the new conditions of protection. For this purpose the earnings of such marginal producers could be supplemented by direct financial assistance instead of through the price mechanism or on the basis of volumes of production. Any other course would amount to encouraging anti-economic production, reducing consumption through high costs, and providing additional earnings for those producers who do not need such help.

690. The foregoing undertakings would have a substantial effect on the volume of trade in a number of products. One of the conclusions of the Haberler report states that a great expansion of trade in primary commodities between the industrial and non-industrial countries could be achieved through a moderate change in the direction of protection away from the high levels they have reached in many countries. If the production of wheat, maize, barley, sugar and beef, for example, were reduced by 1 per cent compared with the 1961 level in the industrial countries where they are produced on an uneconomic basis, and if during the same year consumption were increased, also by 1 per cent, through a greater proportion of low-cost imports, it is calculated that the demand for imports of those countries would have increased by 15 per cent. These figures indicate how greatly the developed countries could improve the situation by making a comparatively small contribution.

691. In this connexion it should also be noted that increased imports of agricultural products by the industrial countries, as a result of adjustments in their domestic economy, would certainly be offset by increased non-agricultural exports.

692. A change in world production and trade in these products, always provided that it is effected in a suitable way, is not incompatible with attending to the unsatisfied needs of the large part of the world that suffers from hunger or malnutrition. To judge by the figures given by FAO, about half the world’s population is in this category. Most of these people do not have the means to pay for the food they need.
Nevertheless, the present surplus disposal methods used by the developed countries make it possible for those countries to maintain artificial stimuli to production. The effect is both to depress world prices and to restrict export possibilities for the countries that do not subsidize their exports, and, lastly, to reduce the prospects of agricultural development in the countries that are receiving the surpluses. According to the observations of FAO, the sphere in which these surpluses are disposed or should be restricted, and should not include, for example, markets where there is no lack of funds to pay for them.

693. One possible approach to correcting the distortions created by the present system of disposing of agricultural surpluses would be to consider the suggestions put forward in the Atlantic Institute publication referred to in chapter IV. The idea of providing the developing countries with additional purchasing power, so that they could buy their agricultural products from the supplier of their choice, would have the great advantage of giving a more multilateral character to the disposal of the surpluses. At the same time, by gradually eliminating subsidies, it would also lead to a better balance in the distribution of world agricultural production.

694. The distribution of the financial burden involved in such a programme would, of course, raise difficult problems, as indicated in chapter IV. Nevertheless such action, as part of a complex of other measures, would be helpful in reconstituting a real world market for certain agricultural products.

695. Implicit in all the foregoing is the need for specific rules to be applied to trade in agricultural products in order to restore the conditions of a market based on fair competition. In chapter IV there was a reference to other ideas, such as those put forward by some spokesmen for the developed countries, on the subject of what is termed market organization.

696. These suggestions tend to take the existing situation as the point of departure. They propose, firstly, that the prices to be paid for imports should be adjusted to those paid to the domestic producer, and, secondly, that the present tendency to overproduce should be turned to account in the context of a general policy of nutritional assistance. In practice, however, the application of these ideas would raise a series of problems. The price level would apparently tend to approximate to that of the area producing at the highest cost. If this were so, there would be a risk of discouraging consumption and stimulating substitution. In addition, the higher the price arrived at, the more it would be necessary to limit the supply. If such limits were applied to the developing countries, their possibilities of financing their own economic development would be seriously reduced. It is also difficult to determine the criteria to be applied in establishing such limits. If the present output figures were taken as the basis, for example, those countries that now import large volumes would be penalized, since they would bear the main financial burden of the new system in the form of higher prices for their imports. The countries that have stimulated domestic production to the point of eliminating imports would have to bear their share of the burden only if the internationally fixed price were low enough to discourage domestic production and thus lead to a resumption of imports. Moreover, if such a system were based on a relatively high price level, equally delicate problems would arise in connexion with the financing of the nutritional assistance to the areas of the world where at present there is no demand in the commercial sense.

697. Moreover, it is doubtful whether commodity agreements could serve as a more or less general remedy in connexion with temperate-zone agricultural products. In such cases as they might be useful, it would be essential for them to follow certain broad guiding principles, with due regard for the individual characteristics of the different commodities.

698. One such principle relates to the desirability that the prices established, either for imported products or those produced domestically, should be intermediate between those prevailing in the main high-cost and in the main low-cost production areas. This would have the effect of increasing the earnings of the less developed countries, while also reducing the incentive to marginal production in the industrial countries. In establishing these prices, there must be due regard for the interrelationship of the various products and the risks of substitution, which might mean that in some cases it would be necessary to conclude multi-commodity agreements.

699. Another general principle relates to the need to ensure that any restrictions on supply that may be established are not based on the assumption that the developing countries accept the present distorted structure of world agriculture. On the contrary, the essential aim should be to make sure that those countries can achieve levels of exports sufficient to meet their development needs. For the same reason, when the consumption of these products eventually increases, the non-subsidized producers should be the ones to benefit, with a view to drawing progressively closer to what might be regarded as a rational structure of world production.

700. An attempt is now being made in GATT to solve the problem of the temperate-zone agricultural commodities, and this will be one of the main subjects dealt with in the Kennedy round. As the problem has been discussed over a number of years, there is no reason to drag out these negotiations to which the developed countries have committed themselves. In this connexion it should be stressed that the difficulties experienced by certain developed countries in successfully concluding their negotiations, and the possibility of additional delay, should not be allowed to result in a further deterioration of exports for the developing countries, for which delay involves the risk of being faced with yet more faits accomplis that will increasingly damage the position of their exports.

701. When, in 1957, GATT examined the agricultural provisions of the Treaty of Rome, the EEC gave an assurance that the Treaty would not be used in such a way as to exclude imports and in 1962 again stated that “neither the organization of the

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46 GATT, Basic instruments and selected documents, sixth supplement, p. 87.
regulations nor the preference ... warranted any assertion that the system led in the long term to an eviction of third country exporters.” The fact that the task of working out a common agricultural policy is continuing in the EEC does not preclude in the meantime the concession of guarantees to safeguard the interests of the developing countries. With respect to the United States and the United Kingdom, awareness of the problems created by excessive protection for agriculture is leading to the reappraisal of existing policies.

702. At the GATT meeting of Ministers in May 1963 it was stated that the aim was to establish acceptable conditions of access to world markets in order to achieve a substantial increase in world trade in agricultural products. If, despite this statement, the developing countries find that their share of exports to the various markets is reduced even further while the negotiations are proceeding, this will be clear proof of the failure to understand the particularly urgent needs of the developing countries, and the harm caused by the restriction of their traditional role as exporters.

703. In these circumstances the countries that depend on agricultural exports cannot be expected to accept without any compensation the non-observance of the elementary rules of reciprocity. If the reciprocity implied by GATT does not function, there is a risk that the developing countries will be obliged to resort to a more direct form of reciprocity through differential treatment of imports according to origin, to the serious detriment of increasing multilateralization of world trade.

Conclusions

704. The above considerations can be summarized in the form of the following conclusions:

(1) All the developed countries should establish a ceiling to the amount of subsidies and various forms of protection applied to agricultural products, at a level that would permit of a substantial increase in world trade in agricultural products. If, despite this statement, the developing countries find that their share of exports to the various markets is reduced even further while the negotiations are proceeding, this will be clear proof of the failure to understand the particularly urgent needs of the developing countries, and the harm caused by the restriction of their traditional role as exporters.

For this purpose the developed countries should undertake:

(a) To correct agricultural policies that, through the price mechanism, various forms of import restrictions and other forms of control, have constituted an obstacle to agricultural exports from the developing countries. This means the immediate adoption of measures to neutralize the effect of variable levies, quantitative restrictions, prohibitive customs duties, preferential tariffs and other discriminatory measures.

(b) To make effective reductions in subsidies to agricultural production.

(c) To eliminate subsidies to agricultural exports.

(2) Foreign aid to particular developing regions in the form of food products should not be at the expense of the export opportunities of the other developing areas or of the agricultural development of the recipient country. For this purpose there should be agreement in principle on the idea that this type of help should tend to increase the purchasing capacity of the recipient countries so that they can buy their agricultural supplies wherever it best suits them to do so. This will endow the disposal of surpluses with a more multilateral character, which, in conjunction with the progressive elimination of subsidies, will contribute to a better distribution of world agricultural production.

In addition, as long as there are surpluses that can be used to provide nutritional assistance, all exporting countries should take part in administering the surpluses, in order to ensure that they are not used as a means of trade promotion.

(3) For products with a low income-elasticity of demand, of which there is an excessive supply, commodity agreements could, without prejudice to the foregoing recommendations, contribute to improving world trading conditions. To be effective, such agreements should conform to the following general guiding principles (with due regard for the type of product concerned):

(a) The price paid for imported products and those produced domestically should be fixed at an appropriate level between the prices of the main high-cost and low-cost production areas.

(b) In establishing prices, account must be taken of the interrelationship of the various products and the risks of substitution. In some cases this would mean the conclusion of multi-commodity agreements.

(c) Any restrictions established on supply must not be based on the assumption that the developing countries accept the present distorted structure of world agriculture, and should be such as to ensure that those countries achieve levels of exports sufficient to meet their own development needs.

(d) If there is any increase in consumption, the main benefit of the redistribution of quotas should go to the non-subsidized producers, with a view to drawing progressively closer to what might be regarded as a rational structure of world production.

(3) Mineral ores and fuels

705. Trade problems relating to products of mineral origin and fuels are in some cases similar to those relating to products of agricultural origin, and in others somewhat different. The similarities relate to the duties and quantitative restrictions that protect production in the developed countries, and to the discriminations in favour of certain areas and against others. Some of the special problems posed by mineral products and fuels derive from the fact that the bulk of their extraction, processing and marketing is controlled by international companies in the developed countries. The policy of these companies tends to have an unfavourable effect on volumes of output and exports, and on the possibilities of a greater degree of local processing of these products. In fact the Governments of the producer countries usually have little influence on decisions as to the marketing of the products. The tendency of the companies concerned to establish their distilleries, refineries, blast furnaces, foundries, rolling mills and

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other primary processing plants for mineral ores and fuels in countries that do not produce these items prevents the developing countries from making full use of their natural resources. The present differences between the tariff treatment of raw materials and semi-processed products tend to consolidate and strengthen this type of production structure, and constitute an artificial obstacle to the diversification of the developing countries' exports and the increase of their export earnings. The efforts made to change this situation have encountered many difficulties, deriving from the unwillingness of the Governments and financial institutions of the developed countries to grant medium and long-term loans that will enable such activities to be established or expanded in the developing countries themselves.

706. One of the basic principles for a new international trade policy is the desirability of a more equitable structure of production for fuels and mineral ores and their products. A very effective method of achieving this would be to eliminate the duties on semi-processed products, a point which will be taken up again in connexion with exports of manufactured and semi-manufactured products.

707. The prices of mineral products has been relatively favourable in comparison with those of tropical and temperate-zone agricultural commodities, since the mineral products have benefited more from the general industrial expansion in the developed countries. However, this does not mean that it would not be useful to arrive at commodity agreements in this field, always provided that the market forces alone have not led to a sufficient improvement in prices and their maintenance at satisfactory levels.

708. As the mineral products of the developing countries are in most cases essential to the industrial expansion of the developed countries, joint action by producers could have a powerful effect in ensuring more favourable conditions. However, action of this nature would often need to cover a number of products at once, in order to avoid substitution and strengthen the bargaining power of the developing countries.

Conclusions

709. In the light of these general considerations and of the detailed background data given in the relevant chapters of the present document, the conclusions reached in relation to products of mineral origin can be summarized as follows:

(1) The industrial countries must gradually abolish the customs duties, quantitative restrictions and preferential treatment concerned so that basic commodities of mineral origin from the less developed countries can, within a reasonable period, compete on an equal footing with local production in the developed world. Such an undertaking should also cover intermediate products of mineral origin, in order to encourage a higher degree of processing of the basic materials in the country of origin and enable them to be sold directly on the world market.

(2) In exceptional cases, when for security reasons or because it is vital to maintain the existing volume of production, certain industrial countries feel obliged to maintain some import restrictions, the prices they pay for the imported product should be the same as those paid for the domestically produced item.

(3) The developed countries should support all measures taken by the Governments of the developing countries to ensure that the policy of the companies concerned is consistent with the general aims of the country's development, as regards volumes of output, marketing and degree of processing of the exported product.

(4) The Governments of the developed countries and international financing agencies should support the granting of medium and long-term loans to domestic enterprises in developing countries for the prospecting, exploitation and processing of their own mineral and fuel resources.

(5) The support of the developed countries is essential in reaching suitable commodity agreements of this type, always provided that such agreements are needed to raise prices or maintain them at a higher level for the purpose of increasing to the maximum the foreign currency earnings of the less developed countries.

C. EXPORTS OF MANUFACTURED AND SEMI-MANUFACTURED PRODUCTS

710. As pointed out several times throughout this document, the obstacles hampering foreign trade in the developing countries will not be overcome unless there is both a rapid improvement in the conditions affecting their traditional trade flows and a more far-reaching effort towards diversification of exports by means of the growing incorporation of manufactured and semi-manufactured products.

711. The fact that the second requirement is a long-term objective does not warrant postponing the decisions and specific action without which it cannot be achieved. On the contrary, access by this type of product to the markets of industrialized countries must be provided forthwith, since only thus can investments be initiated and production organized in general so that good use can be made of such possibilities in the future.

712. In actual fact, access by manufactured and semi-manufactured goods to the markets of developed countries involves a number of factors. Some concern generally applicable tariff reductions, such as those proposed in the United States Trade Expansion Act; others the granting of new preferences to the developing countries as a whole, as also the abolition of existing preferences discriminating between developing countries; and others non-tariff barriers whose removal is imperative if any advantage is to be reaped from decisions in respect of tariffs. Each of these aspects should therefore be considered separately.

(1) Generally applicable tariff reductions

713. The next opportunity for discussing this question at an international level will be provided by the forthcoming GATT tariff negotiations which will partly overlap with the United Nations Conference on Trade and Development. If successful, such negotiations could result in a 50 per cent tariff
reduction for nearly all industrial products, which would constitute an important contribution to the formulation of a more rational world trade policy. From the standpoint of the less-developed countries this is hardly an opportunity to obtain commitments on the necessary scale, since the resulting advantages would have to be generally applicable, in accordance with the most-favoured-nation clause. This does not mean, however, that the results will not be of interest. On the contrary, definite progress could be made on this occasion, provided that—as distinct from previous negotiations—account is taken of certain points which can represent a substantial, if only partial, contribution to the developing countries. To that end, exports of special concern to the developing countries, such as those contained in the schedule drawn up by Committee III of GATT, should in the first place, not be among the few products that will be excluded from the linear reductions. In practice, as regards semi-manufactured products—excluded from previous tariff negotiations—this type of tariff reduction for a finished product be accompanied by at least equivalent tariff reductions for items at an earlier stage of processing. To bring this about, the developed countries would have to undertake not to apply any other measures—such as quantitative restrictions, specific customs duties which actually impose a higher tariff on the cheaper articles than on the more expensive ones, or non-tariff surcharges—which tend to curtail the benefits derived from tariff reductions.

714. If all these conditions are respected, future tariff negotiations will prove to be more useful to the developing countries than the previous ones, particularly where the tariffs are lower. However, the tariff reductions agreed upon in the Kennedy round on the basis of the most-favoured-nation clause will be able to provide only a part of what should become an over-all solution for the developing countries. Tariff reductions on a most-favoured-nation basis are often not enough to enable the processed products of developing countries to gain access to the markets of the industrialized countries. Because of the peripheral geographical situation of many developing countries, competitors with headquarters in the more advanced countries might indeed be the main beneficiaries of such general tariff reductions. Under such conditions, moreover, the under-developed countries would have to compete with producers that were not only highly efficient, but were also equipped with well-established marketing and distribution mechanisms, with free access to large domestic markets and a firm footing in the export markets as well.

(2) Need for and nature of preferential treatment in respect of the developing countries

715. Such disadvantages can be overcome only by granting specific exemptions for products from the developing countries so that they can compete effectively on the markets of the developed part of the world. If these exemptions are to be effective, the first requisite is a reversal of the present frequent tendency to hamper the access of products from the less developed countries on the pretext of preventing market disruptions, while favouring more expensive products from the developed countries. As the former have a relatively limited production capacity compared with the probable growth of consumption in the more advanced countries, the latter's fears concerning the possible consequences of a preferential régime are unfounded. However, since such fears exist, any scheme of preferences must incorporate certain clauses designed to protect the legitimate interests of producers in the developed countries. Similarly, it should be clearly established that such preferences would be merely a transitory measure to compensate for the developing countries' initial disadvantages, to enable them to gain access to markets in the developed countries and to establish new trade flows which would ultimately have to compete on an equal footing.

716. It is not difficult to justify the legitimate nature of such a preferential régime. On the other hand, the specific methods for granting preferences, and in particular their general or selective character, are open to examination in greater detail.

717. The selective method, such as that put forward in the Brasseur proposals, is the type that has been most discussed so far in the industrial countries. Although these proposals have been set out in fairly detailed form in chapter IV, it is as well to remember that, according to the method it suggests, every developed country or group of countries would decide in respect of which products it would grant preferences, while the beneficiary developing countries would be those capable of producing and exporting products covered by the preference. Each case would be examined by a joint committee, which would include representatives of the exporting countries and the developed importing countries, or might be the subject of bilateral negotiations. The necessary margin of preference, conditions and technical assistance would be determined in each case. In short, the selective method implies that the preferences granted would differ in magnitude according to each individual case and that every developed country could, in principle, grant them to different products without necessarily extending them to all the developing countries.

718. While such a method would provide ample assurances for producers in the developed part of the world since they would have many opportunities for influencing the course of the negotiations, it would leave the developing countries in a state of great uncertainty as to what results could actually be achieved. The selection would presumably entail intensive market studies beforehand and difficult consultations with individual firms, with the serious risk that, eventually, one or other of the Governments would not grant the preference. Such a refusal would automatically reduce the chances of its being granted by other countries since the potential pressure on their markets might then increase. No less disturbing would be the fact that the preference might be confined to some developing countries. To sum up, the selective method would mean that to solve the developing countries' export problems the former item-by-item system of tariff negotiations would be revived with all its shortcomings that are already well known to the developed countries themselves, and this in a situation...
in which the developing countries would have insufficient bargaining power to be sure of obtaining results in line with their true interests.

719. The serious deficiencies of the selective method point to the need for general preferences which would be applied in an identical manner by all developed countries, would benefit the developing countries as a whole, would cover all manufactured products and provide for a uniform preferential rate. The risks that such a system might entail for industry in the developed countries would be reduced to a minimum if it were agreed as a basic principle of the system that industrial products from any developing country were to have free entry into all the developed countries provided that such imports represented, for each product, no more than a certain uniform proportion (say, 5 per cent) of the importing country’s domestic consumption.

720. The need for cumbersome negotiations for each individual product would thus be eliminated. Furthermore, while affording protection to producers in the developed countries—by limiting the preference to imports that do not exceed a certain percentage of domestic consumption—the sizable consumption capacity of the developed countries would offer a potential volume of exports which in the majority of cases and over a long period would far exceed the exporting capacity of the developing countries as a whole.

721. Naturally, the granting of preferences to all products inevitably means that a good many of them would not be used; but it would have the over-riding advantage of permitting potential investors themselves to decide freely what lines of production to develop with a view to exports. While a preference for selected products implies the risk of directing the developing countries’ attention to a few products pre-determined by a somewhat rigid framework, a general preference is likely to prevent any concentration of export flows that might originate in the developing countries. With such a broad base, the benefits of a blind relative cost situation can be reaped more easily, thereby promoting a pattern of exports from developing countries that is more in line with a rational division of world labour.

722. That the volume of imports exempt from customs duties should be measured in relation to a percentage of domestic consumption instead of a percentage of previous imports is justified by the fact that the latter criterion would, in effect, favour countries which have hitherto followed a highly protectionist policy, in respect of the obligation to improve conditions of access. Furthermore, the volume of imports subject to preferential treatment ought to be completely free from customs duties since a tariff, albeit preferential, would still leave imports from the developing countries at a disadvantage with respect to producers inside a large regional or domestic market.

723. With a mechanism of this kind, imports subject to preferential treatment would be effected within the limits imposed by a tariff quota. Since for some time few products would be likely to exceed the limit of 5 per cent, the quota would in fact only apply to these. Thus free entry could be permitted for all products certified as having originated in a developing country. Only if a group of domestic producers and importers of these products from other developed countries so wish (for instance, because imports are nearing the limit fixed for domestic consumption), would an actual quota be established. In that case, the co-operation of domestic producers in furnishing the figures necessary for calculating domestic consumption would be obtained all the more easily since the figures would serve a useful purpose for them.

724. The concept of a tariff quota naturally implies that imports can exceed the limits set, but would then be subject to the tariff imposed in accordance with the most-favoured-nation clause. Consequently the reduction of this tariff in the Kennedy round would also have a bearing on the adoption of a preference scheme.

725. All developed countries should take part in a scheme of this nature, so that none has to do more than its share in solving the developing countries’ problems. Similarly, all the developing countries should have access to the markets of the industrialized countries on the preferential terms agreed upon. It should, however, be made clear that imports of products from developing countries already enjoying previously established preferences would not be admitted under the tariff quotas of the developed country concerned.

726. The purpose of establishing a generally applicable limit on imports which are to benefit from preferential treatment is merely to establish a minimum that is immediately acceptable to all the developed countries. If certain developed countries find that they can grant preferences to the developing countries on a larger volume of imports, they should not be prevented from doing so provided they extend these preferences to all the developing countries.

727. Naturally, other details such as the method of assuring certain developing countries of a share in exports of manufactured products once the quotas have been used up by other developing countries, special financial and technical assistance, and systems for administering quotas, etc., cannot be clarified until the principle of preferences has been accepted by the industrial countries. This is the most important point in any case.

728. A general preference within the limits of a specific but relatively small share of consumption is designed to apply to all manufactured products for final use or consumption. With respect to products for intermediate use, the developed countries should assume more far-reaching commitments. In the past, Latin America has found it extremely difficult to export materials that have undergone a certain degree of processing on advantageous cost terms. Yet, in a world of rationally organized production and trade the developing countries should be permitted to undertake the initial processing of the raw materials they produce. At present, the tariffs levied on semi-processed articles produced by the less developed countries are often higher than those applied to the primary product in its crude form and thereby render diversification of exports more difficult in those branches of activity for which the developed countries would often be particularly well suited. It should therefore be stipulated that the developed countries
reduce the tariffs on imports of semi-processed products gradually, to the point of eliminating them within a reasonable period. Such a provision could be limited to all semi-manufactures whose value added to raw material did not exceed a given percentage.

729. For this type of product, tariff exemption would not be confined to a certain percentage of total consumption in the country concerned nor would a time limit be set for tariff abolition, as in the case of preferences for finished products. Such a commitment would therefore imply a willingness on the part of the developed countries to envisage, on a world scale, structural changes similar to those they have undertaken at the regional level. The stage at which the industrial countries now find themselves, with their economic integration plans already pledged to large-scale industrial adaptation, seems the right moment to act with the object of simultaneously arriving at a better division of world labour. To defer this task would mean that the developed countries' industries would have to suffer two consecutive series of adaptation processes, thereby entailing an unnecessary waste of resources. No doubt the elimination of tariff differentials will require a period of adjustment, but the difficulties would not appear to be greater than those encountered in establishing the regional groupings in Europe, for which a transitional period of ten or twelve years has been envisaged, during which the elimination of the tariff differentials would also be achieved, the more so since it provides more than enough time to write off invested resources.

730. If the period of adaptation does not constitute a sufficient safeguard, the developed countries could be authorized to take the necessary steps to see that their domestic industry does not experience a reduction in its present volume of production, while ensuring that imports can compete on equal terms with the importing country's domestic production to satisfy the increase in the consumption of the semi-manufactured products concerned.

731. The preferential measures proposed here ought not to be dependent upon reciprocal concessions by the developing countries. At their present stage, the developing countries cannot really offer many concessions, apart from the abolition of existing preferences favouring some developed countries to the detriment of the rest of the developed countries and the under-developed countries. Similarly, if the preferences are to be effective, the quantitative restrictions to which various industrial products are still subjected should be abolished and no new quantitative restrictions or internal measures apt to nullify the benefits expected from tariff reduction should be introduced.

732. The same purpose would be served by a change in some of the practices followed in the past by the developed countries to the detriment of the developing countries. Among these is the fact that tariff charges levied on products for local use and consumption in which a substantial proportion of the components consists of raw material from the exporting country are frequently far higher than the charges levied on similar manufactured products. The developed countries should fix tariffs at a level that will not hamper the setting up of industries to process such raw materials in the country of origin. The specific duties which impose proportionately higher charges on products of a lower unit value should likewise be eliminated.

733. From quite another angle, it is true that some developed countries already grant preferences with respect of industrial products to certain developing countries. Some of these preferences have existed for several decades and have created substantial export flows that have been very useful for the less developed countries concerned. Other preferences established in violation of the relevant GATT rule are very recent and have not yet led to currents of trade. In order to put the world pattern of preferences on a different basis the former pattern will have to be changed either by eliminating existing preferences or by extending their benefits to all the developing countries.

734. In order to prevent new distortions of trade to the detriment of the other developing countries, immediate steps should be taken to eliminate all preferences which have not as yet given rise to trade flows. When such flows already exist and some developing countries are dependent upon them, the application of preferences should be limited to the volume of trade attained in the past few years, irrespective of the fact that they ought to be gradually reduced until they are eliminated within a period of not more than ten years.

3. Some non-tariff barriers

735. These, then, are the decisions that are needed with respect to preferences. It would, however, be advisable to make, in addition, a brief review of the non-tariff barriers to exports of manufactures and semi-manufactures by the developing countries.

736. These include agreements on cartels and patents concluded between foreign industrial and commercial firms, in particular subsidiary and affiliated companies and branches of international concerns operating from the more developed countries. Such agreements might have the effect of preventing the tariff reductions and preferences granted to the under-developed countries from actually leading to an export flow of manufactured products. Thus, the advantages offered by the elimination of trade barriers might be lost.

737. In the first place, since the existence of such cartel and patent agreements is liable to give rise to controversy and claims, it might be wise to start thinking about the possibility of setting up or organizing special machinery whereby any allegations or claims that might be made could be examined and pronounced upon.

738. Secondly, any attempt to make use of the new export opportunities created for the developing countries implies the need to devise means and expedients to guarantee that full use is made of such possibilities, consideration could be given to the establishment, under the auspices of the international trade organization or regional groupings, of committees to bring together representatives of international firms and of the Governments of developing countries,
with a view to safeguarding the legitimate interests of both parties.

739. A further obstacle, namely, the high distribution costs for Latin American exports, could be surmounted by the establishment of suitable institutions abroad whose function would be to market Latin American products at a minimum cost and with a maximum of efficiency. Needless to say, it is recognized that direct contact or communication between producer and consumer is often an indispensable requirement for the establishment and maintenance of trade, and that the regular channels should be used. For certain products and markets, however, direct contact is not possible (e.g., in trade with centrally-planned economies) or is beyond the resources available to the individual producer (e.g., when a new commodity is to be launched on a market where no suitable trade representation exists). In other cases, the prevailing arrangements result in too great a mark-up on the producer’s price and point to the need for streamlining distribution and marketing activities.

740. For the developed countries, problems of this kind are not so acute. By contrast, in the underdeveloped countries, the cost and organization required tend to be beyond the resources generally available. The problem could, however, be solved if the industrialized countries were prepared to cooperate in the efforts made by the developing countries to set up adequate marketing services for all products for which an improvement in the sales situation is needed.

741. In addition, trade information centres should be established in each country or on an international basis to furnish producers in the developing countries with any data needed regarding the size and nature of the market; the tastes, needs or preferences of the consumer; the requirements of quality and consistency; the appropriate transport and delivery schedules; the packing, grading, health and sanitary legislation; the documentation and customs formalities; and such other matters as might interest a producer who, for practical reasons, could not establish his own commercial contact. Although individual countries (or all the Latin American countries collectively) could, to some extent, maintain sales representatives abroad, in view of the cost and specialized knowledge involved, it would be preferable for the industrialized countries to provide such centres free of charge for the dissemination of trade information to producers in the developing countries.

Conclusions

742. It would be helpful at this point to assemble all the considerations set out in this section in relation to the exportation of manufactures and semi-manufactures in terms of a series of conclusions deriving from the present analysis:

(i) The developed countries should accord preferential treatment to imports of manufactured and semi-manufactured products from the developing countries. These preferences should be granted by all the developed countries in favour of all the developing countries in accordance with the following provisions:

(a) Provisions applicable to manufactured products for final use or consumption

(i) The industrialized countries should forthwith grant duty-free access to imports of all manufactured products for final use or consumption, wherever such imports represent not more than 5 per cent of the domestic consumption of the importing country concerned. Moreover, in specific cases, any industrialized countries would be entitled to grant preferences to imports exceeding that limit without extending them to other industrialized countries provided they apply them to exports from all the developing countries.

(ii) Imports from developing countries which are effected on the basis of previously established preferences are not included in the quotas with duty-free access referred to in sub-paragraph (i).

(iii) Any imports from the developing countries in excess of the limits indicated in sub-paragraph (i) would be subject to the relevant tariffs under the most-favoured-nation clause.

(iv) The preferences established in sub-paragraph (i) would be maintained so long as the beneficiary country remains in the state of relative under-development which caused such preferences to be granted.

(b) Provisions applicable to products for intermediate use

(i) The developed countries should gradually reduce and eventually abolish the tariffs on imports of semi-processed products within a reasonable length of time. Such a provision may be limited to all those semi-manufactures whose value added to the raw material does not exceed a certain percentage.

(ii) The developed countries would, in turn, be authorized to take appropriate measures in relation to imports to ensure that no reduction occurs in the present volume of their domestic industrial production, while enabling imports to compete on an equal footing with the domestic production of the importing country concerned in respect of any increase in consumption of the semi-manufactured products in question.

(2) The following commitments should be undertaken by the industrialized countries with a view to the forthcoming GATT tariff negotiations (Kennedy round):

(i) The most important products exported by the developing countries should in no case be included among the very few exceptions contemplated to the linear reduction rate.

(ii) Full advantage should be taken of the system of linear negotiations to introduce, concurrently with each tariff reduction on a finished product, at least equivalent tariff reductions on all items representing an earlier stage of processing of the finished product.

(iii) No other measures—such as quantitative restrictions, specific customs duties or non-tariff measures—tending to limit the benefits expected from the tariff reductions in question should be introduced.
irrespective of the fact that they ought to be gradually following basic principles in their future trade policy:

(i) The adoption of the measures proposed should not be made conditional upon reciprocal concessions by the developing countries, with the exception of the abolition of existing preferences that are detrimental to some developed and less-developed countries.

(ii) Quantitative restrictions on intermediate products and products for final consumption should be abolished, and no new quantitative restrictions or internal measures established that might reduce the effectiveness of the concessions granted.

(iii) In the case of intermediate products for final use and consumption, in which a very high proportion of the components consists of raw material, tariff charges should be reduced to a level that would not hamper the setting up of industries for the processing of those raw materials in a developing country.

(iv) Specific customs duties that impose proportionately higher charges on products of a lower unit value should be abolished.

(4) Steps should be taken forthwith to eliminate the preferences granted to some of the under-developed countries by certain developed countries, provided that they have not yet led to the creation of trade flows. When such trade flows already exist, the developed countries should limit application of preferences to the volume of trade attained in the last few years, irrespective of the fact that they ought to be gradually reduced and eventually eliminated within a period of not more than ten years.

(5) As regards other difficulties in the way of exports of manufactures and semi-manufactures by the developing countries, suitable machinery should be established to ensure that specific agreements for restricting trade (cartels and patents) will not defeat the purposes of the various measures designed to promote industrial exports from the developing countries. Likewise, the developing countries should make an effort to set up, with the co-operation of the developed countries, adequate marketing facilities for all products for which an improvement in the sales situation is needed, and to establish trade information centres to furnish producers in the developing countries with any data required.

D. TRADE IN INVISIBLES: MARITIME TRANSPORT

743. As set forth in chapter II of the present report, the availability and regularity of maritime transport services and the cost of freight are factors of paramount importance for the proper development of Latin America's foreign trade, 90 per cent of which is carried on by sea. The transactions arising out of such transport in terms of import and export freight payments represent some $2,000 million annually, a sum which has contributed substantially to the deficit in the services account, since the share of the Latin American merchant fleets accounts for barely one-tenth of the shipping involved in those transactions.

744. The almost complete dependence on interests outside the area for an element as vital as shipping to the smooth operation of each individual domestic economy and to the development of exports, the need to reduce the severe drain on the balance of payments represented by this item, as also the necessity of taking part in shipping conferences with the object of being able to discuss freight practices and tariffs, not infrequently considered unsuitable or harmful, are among the motives which induced a number of Latin American countries to take measures to encourage the expansion of their own merchant fleets. Unfortunately, the great maritime powers are constantly adopting attitudes and initiatives which make it very difficult to enforce these measures, even though they are essentially the same as those that have been, or still are, in force, for identical purposes, in countries whose shipping enterprises are among the most powerful in the world.

745. In these circumstances, it is essential to remove certain obstacles to the expansion of the developing countries' merchant fleets and to establish, through the shipping conferences, operating and tariff standards on the formulation of which the users will be consulted in advance.

746. The Latin American countries themselves will have to make sufficiently vigorous efforts to bring about changes in certain internal factors, which also have a markedly adverse effect on freight rates and on the regularity of existing services, deficient harbour facilities being a case in point. In this way maritime transport can make a better contribution to intensifying the region's foreign trade.

Conclusions

747. These general considerations and the more detailed background data set out in other sections of this document lead to the following conclusions:

(1) It is imperative that agreements be concluded as soon as possible with a view to:

(a) Establishing a system of compulsory prior consultation between the Governments and users concerned, on the one hand, and the shipping conferences, on the other, with regard to maritime transport, its cost and any changes therein; and

(b) Ensuring that the freight rates established by the shipping conferences be made public.

(2) The agencies responsible for promoting world trade, as also the regional economic commissions of the United Nations, should undertake studies without delay, jointly or within their respective spheres of action, to pave the way for prompt action to strengthen the developing countries' foreign trade and merchant fleets. The following questions should be examined in particular:

(a) Practices in force all over the world in respect of the granting of subsidies and other assistance to national merchant fleets, and the effect of such practices;

(b) Existing preferential treatment in such matters as allocation of cargo by flag, priority in the use of ports and the collection of differential freight rates; and

(c) Freight practices established by the shipping conferences and the structure of their rates.
E. TRADE WITH THE CENTRALLY-PLANNED ECONOMIES

748. Reference has been made in the relevant chapters of this document to the great trade potential which the inauguration or expansion of trade relations with the centrally-planned economies represents for the developing countries. But effective use of this potential depends on a number of basic factors and decisions.

749. Any substantial intensification of trade between the Latin American countries and the socialist area naturally forms part of the more general problem of integrating world trade as a whole, which involves improving upon the sporadic and irregular nature of trade in the past between the market and the centrally-planned economies.

750. This integration is clearly indispensable, since the efforts made to reshape world trade should be primarily aimed at providing greater possibilities for the developing countries. The ensuring responsibility that devolves upon the industrialized countries must naturally consist in a collective effort in which each one plays its part and undertakes commitments which, adapted to meet the requirements of their respective systems, would represent contributions of equivalent benefit to the developing countries.

751. There is no reason why differences in system should be an insurmountable barrier to the adoption of a body of basic principles determining the nature of the equivalent commitments to be undertaken vis-à-vis the less developed countries.

752. In fact, the possibility has already been mooted at some international meetings of establishing regular contacts for co-ordinating the plans of the developing market economies with those of the centrally-planned economies in respect of the former's trade requirements. The existence of common rules and the progressive integration of the whole world economy might play a decisive part in making such contacts more effective.

753. In this general context of co-operative co-existence, the joint responsibility of the advanced countries for helping those that are still at an earlier stage of development stands out even more clearly. Although the commitments assumed by the centrally-planned economies for improving the trade conditions of the developing countries cannot be equal, from the administrative point of view, they must in any case be of equivalent scope and magnitude.

754. Such equivalence is of course impossible to achieve through tariff reductions or the usual preferential systems, which have entirely different implications for the centrally-planned economies. They have, however, a highly effective instrument at their disposal for obtaining it, that of quantitative import commitments on the part of the developing countries.

755. A commitment with quantitative targets, whereby the developing countries would have the possibility of including in their long-term plans and in their annual policy decisions on foreign trade predetermined and increasing quantities of goods that are of interest to them, would in fact be the most effective way of translating the contribution of the industrialized socialist countries into practical terms. Contacts for reviewing development plans and greater integration of world trade would, as said before, help to make this possible.

756. A commitment of the kind described would involve an assurance by each of the industrialized socialist countries of its intention to buy, from the developing countries as a whole, a minimum annual amount of the goods exported by them in normal world market conditions and at the prevailing international price in the case of traditional exports, or with the use of preferential tariffs or systems in the case of certain types of processed products.

757. Such purchases would go far towards solving the external problems of the developing countries while taking into account the capacity of the countries granting the concessions to adapt their economies to the necessary changes.

758. Equivalence cannot of course be confined to an over-all amount. It must also be extended to specific procedures for reaching the complementary goals mentioned in previous sections, with particular reference to the industrialized market economies. The foremost objective is that the benefits which the commitments are intended to confer should be offered to all the developing countries on equal terms, thus eliminating all traces of discrimination among them.

759. Moreover, it is presumed that these quantitative trade targets will implicitly reflect decisions aimed at rationalizing the distribution of world production and trade in specific commodities, by limiting autarkic policies in the same way as was suggested for the industrialized countries with market economies.

760. The equivalence sought should also operate for the kind of product included in the quantitative import commitments, so that full use may be made of the contribution of the industrialized socialist countries to diversify the exports of the developing economies. In other words, the commitments should cover not only primary commodities, but manufactured and semi-manufactured goods. As regards the last two groups, it is admittedly doubtful whether an over-all quantitative commitment would suffice or whether preferential tariffs would also be needed on the same lines as those already used by some centrally-planned economies to channel their imports towards particular supply areas. These tariffs would ensure that the imports in question came from developing countries since the latter are bound to have to face competition from other more efficient producers, in the early stages at least.

761. Again, certain features that are typical of current trade with the centrally-planned economies will have to become more adjusted to the requirements and characteristics of the developing countries. For example, their decision to base the bulk of their trade on bilateral agreements will probably have to be accepted for the time being, since it is difficult for them to alter their mode of trade at present. But acceptance does not imply a relaxation of the efforts being made to increase little by little the elasticity of the bilateral arrangements. It ought to be possible for multilateralism to be established within COMECON, at least in the not-too-distant future.
762. Since Latin America has little experience in trading with the centrally-planned economies, it might be useful for a regional office or agency to be set up to facilitate negotiations and even conduct them on behalf of the Latin American countries that were disposed to enter into an arrangement of this kind. An agency on these lines would be particularly helpful for the smaller countries, and all the more so as the mode of trade in question is new to the region. The agency should of course be adapted to fit into the final pattern that will emerge after the reorganization of world trade.

Conclusions

763. To sum up, the main conclusions to be drawn from these general considerations and the background information given in other sections are as follows:

1) The centrally-planned economies should undertake to fix quantitative trade targets with the developing countries, and include them in their long-term plans and their short-term policy decisions on foreign trade. The targets should take into account the development requirements of the under-developed countries, in the new framework in which it is hoped that world trade will expand, and conduct to a more rational distribution of world production and trade in respect of certain products. In the case of manufactured and semi-manufactured goods, which, to be exported from the developing to the industrialized countries, need particularly favourable treatment on the part of the latter, the quantitative targets should be supplemented by preferential tariffs for the developing countries.

2) Although a substantial proportion of trade with centrally-planned economies will probably have to be conducted through bilateral agreements for a time, the aim should be to place them gradually on a more multilateral basis, thereby paving the way for a more effective expansion of world trade.

F. PROMOTION OF TRADE AMONG THE DEVELOPING COUNTRIES

764. Another factor that could help to change the structure of world commerce would be the intensification of trade among the developing regions themselves.

765. The problem assumes various forms according to whether the developing countries in question are in the same or different regions.

766. In the first case, regional integration schemes are undoubtedly the most efficacious way of stimulating trade. Moreover, schemes of this kind, such as the Latin American Free-Trade Association and the Central American Common Market, are not hampered by current international trade regulations, based on the established exceptions to GATT's most-favoured-nation clause.

767. When the developing countries are not on the same continent the problem is quite different, and a case can be made out for establishing specific preferences that are not designed to progress towards the complete elimination of tariffs, as in a free-trade area or customs union. The provisions in force make no allowance for partial arrangements of this kind.

A similar situation might arise if, for one reason or another, sub-regional groups or individual countries on the same continent find it difficult or impossible to create a free-trade area or customs union. It might also happen that countries would want to abolish duties solely on certain products in the same industrial sector, or as part of a plan to distribute just a few industries among themselves.

768. In all three cases, substantial trade flows might well be created. But if preferences were applied without being made extensive to the developed countries, this would constitute a violation of current rules. Hence, it is essential for new exceptions to be made to the most-favoured-nation clause so that arrangements of the kind envisaged may come into being.

769. Such preferences should not, of course, weaken or replace commitments to implement the more far-reaching regional plans. When they are applied between countries on different continents, appropriate measures would also have to be taken to prevent the new inter-regional trade currents from entering into conflict with import substitution activities on a regional scale and to avert the danger of setting up a veritable mosaic of preferences.

770. For all these reasons, it would be advisable for the developing countries to make a further study of preferences and other measures to stimulate their mutual trade before framing specific proposals. They would be greatly helped in their task if an institutional structure were to be established after the United Nations Conference on Trade and Development, particularly if it were decided to set up a special mechanism to deal with the problems common to the developing countries.

771. In the meantime, however, it is essential to take action with respect to the preferential systems already existing between certain developed and developing countries that hinder the formation of closer economic ties among the less advanced countries. Firstly, the fact that preferential access to the markets of some developed countries is enjoyed solely by a select number of developing countries on the same continent may be impeding the creation of a region-wide common market for one reason because investment would naturally tend to concentrate in the countries enjoying preferential treatment in the major markets of the industrialized countries. Investment would thus be diverted to the detriment of the countries without preferential access, which, in such circumstances, might doubt the wisdom of forming a common market with the more favoured countries. Secondly, some industrialized countries are accorded preferential treatment by some developing countries, which means that others in the latter category have no chance of competing on the same markets. These preferences, which are a relic from the past, are thus preventing the formation of ties between countries at the same stage of development and with similar interests. What is more, they are not vitally important to the countries that receive them. They should therefore be gradually but very swiftly abolished. And in no case should any developing countries be allowed to establish new preferential tariff reductions in favour of particular developed countries.
Conclusions

772. From the foregoing considerations, it is possible to draw at least some general conclusions on certain problems involved in expanding trade among the developing countries:

(1) Proper use of the trade potential between the developing countries may entail the adoption of preferential measures designed for that purpose.

(2) Before specific measures of this kind are worked out, and in order to avoid the problems that might be caused by an indiscriminate extension of preferences, the developing countries should undertake a general examination of the rules and principles that might best stimulate reciprocal trade.

(3) Such rules and principles should be given special attention by the relevant institutional machinery that may be created by the United Nations Conference on Trade and Development as part of the ultimate aim of reorganizing world trade.

(4) The preferences enjoyed by some developed countries in others that are developing should be abolished without delay, and the establishment of further preferences of the same kind prohibited.

G. TRADE AND DEVELOPMENT FINANCING

773. The adoption of new rules and principles for world trade and the removal of the existing obstacles and limitations, as envisaged in previous sections, could do much to create a more favourable climate for foreign trade and thus give the developing countries a chance to surmount some of the main obstacles to a more rapid and sustained growth of their economies.

774. But the question is not simply one of agreeing on and creating more propitious conditions in the light of two distinct factors: on the one hand, the huge potential trade deficit of the under-developed regions and the fact that it will be difficult for the measures taken to bear fruit rapidly enough, and, on the other, the inadequacy of the internal financial resources that can be mobilized by the less developed economies—during an interim period at least—to meet the requirements of a more rapid rate of growth and to make full use of the new possibilities of expanding and diversifying their exports.

775. It is clear that trade problems cannot be separated from those of international financial cooperation for the developing countries, particularly, as the early part of this study points out, in view of the critical financial situation of the Latin American economies, their need of additional foreign capital and the changes that will have to be made in the terms on which such loans are serviced.

776. To get a better grasp of the problem the question of financing should be divided into four basic aspects: long-term development financing; compensation for the adverse repercussions of the external terms of trade; short-term balance-of-payments loans; and foreign trade credits proper.

(1) Long-term financing

777. The main problem is beyond a doubt long-term development financing. A lengthy examination of this problem to determine its magnitude and traditional pattern and the form it should take in future would be outside the scope of this document, but it is essential to point out at least a few general considerations that have a fundamental bearing on the question.

778. One of these considerations is the need for external financing to be regarded not merely as one of the main factors directly influencing international trade, but also as an integral part of the responsibility incumbent upon all the industrialized countries to pursue the basic objective of accelerating the growth of the developing economies. This is not a responsibility which can be shouldered by certain developed countries vis-à-vis a particular number of developing countries; it must be viewed as a mutual obligation on the part of the whole of the developed world towards the under-developed areas in general.

779. The high degree of external indebtedness already reached by some regions, and certain Latin American countries in particular, raises at least two additional issues: the need for external financing to complement an investment effort which should be primarily based on the increasing mobilization of domestic savings, and the need to overhaul the terms, as regards maturity dates and rates of interest, on which such credits have customarily been granted.

780. Considerable progress has already been made in the former, thanks to the fact that an increasingly large number of under-developed countries are adopting a policy of planning their economic and social development. The preparation of development plans brings in its turn fresh requirements as regards the trend of external loans which should be given as supplementary financing for the plan as a whole rather than for individual investment projects, as they used to be.

781. As regards credit terms, there are other important aspects to be borne in mind apart from the fundamental questions of maturity periods and interest rates. One concerns the limitations to the type of activity that can be stimulated by external assistance. What it amounts to, in the last analysis, is to prevent the implementation of certain practices, such as those formerly applied to certain extractive industries, which made it impossible for external resources to be used to start or develop activities that might be vital to the economy of some developing countries. This consideration is equally applicable to external financing practices whereby financial collaboration is often made contingent upon the purchase, in the lending country, of goods which the recipient can import with such assistance. This has turned out to be yet another obstacle to the growth of multilateralism in world trade.

(2) Compensation for the deterioration in the terms of trade

782. The general problems of long-term development financing are closely linked up with another which has had a profound effect on Latin America's economic development in the past, i.e., the deterioration in the region's external terms of trade. The impact
of this phenomenon on income growth and the purchasing power of Latin American exports is well known; suffice it to recall the comparisons in the initial chapter of this document which show the enormous disparity between the increase in the volume of the region's exports and its actual foreign exchange earnings during the second half of the fifties.

783. More than once, in fact, the deterioration in the terms of trade has been so great that it has largely wiped out the positive effect of external financial assistance and nullified the efforts made to expand the volume of exports.

784. But, despite the overwhelming importance of this phenomenon, no steps have yet been taken specifically to recompense the under-developed countries for the losses they have suffered through it. Consequently, it seems only natural that, when a new international trade policy is to be framed, a factor of such basic importance should be included for consideration.

785. In reality, the future magnitude of the problem depends on the resolute and effective way in which the other problems raised in this study are tackled. Changes in the traditional trade policy of the major developed regions, the progressive diversification of the exports of the developing countries and, in general, the redefining of many of the rules and principles governing international trade, are all factors that would at the very least give much more stability to the terms of trade in the long run. Consequently, the more successful the efforts made to adopt and effect such changes, the less need there will be for a new compensatory plan to prevent a repetition of the severe damage that was inflicted upon the developing regions in the past.

786. This does not of course mean that, until such efforts have met with full success, no specific measures should be taken to protect the developing countries against a repetition of past experiences. Hence the importance attached to the proposal approved by the United Nations that a group of experts should be requested to prepare a compensatory financing project, which was submitted for consideration by the Commission on International Commodity Trade 57 in March 1961 under the title of the Development Insurance Fund.58

787. The scheme proposed is one of automatic compensatory financing for declines in the export proceeds of all the participating countries (developed or developing), computed yearly on a three-year movable basis representing the arithmetical average of export income in the three years immediately preceding the year in question.

788. The Fund is envisaged as a form of insurance (with benefits not completely repayable) or as a combination of an insurance scheme with a system of contingent loans. It is suggested that it should be financed in the following way:

(a) Pro rata deductions on the basis of the value of the exports of all the participating countries;
(b) Premiums to be paid by the developing countries in proportion to their gross national product; or
(c) A combination of (a) for the low-income countries or primary producers and (b) for the industrialized or high-income countries.

789. The different formulae proposed show that it is extremely difficult to establish a criterion for the balanced compensation of losses in export income and that, as regards the criteria chosen for determining contributions to the Fund, a few highly developed countries would always be called upon to finance the bulk of the scheme.

790. Established on these lines, the Fund's field of action would tend to be limited, and would not fully meet the essential requirement of offsetting the long-term deterioration in the terms of trade. The scheme does, however, embody some highly important principles, and the developing countries should therefore give it their full support so that it can eventually be equipped to play the important role that behoves it.

791. Similar observations can be made on the Fund for Stabilization of Export Receipts, which was proposed in 1962 by the Organization of American States. This plan is designed even more specifically to deal with short-term fluctuations, which are already covered (albeit less automatically) by the International Monetary Fund, as will be explained later.

792. In short, the Fund suggested by OAS has all the limitations of the Development Insurance Fund.59 Moreover, the system of credit it envisages, which differs from the mixed systems of social insurance and credit embodied by the Insurance Fund, the nature of the contributions and the system on which the resources deriving from both categories of participants would be used, do not seem to offer any additional advantages.

793. It seems clear, therefore, that the problem of compensating the developing countries for the deterioration in their terms of trade calls for a far more

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58 In the relevant General Assembly resolution the mandate of the group of experts was defined as follows: "to assist the Commission on International Commodity Trade in its consideration of commodity problems by examining the feasibility of establishing machinery, within the framework of the United Nations, designed to assist in offsetting the effects of large fluctuations in commodity prices on balances of payments, with special reference to compensatory financing . . ." In their report, the group of experts considered it essential that short-period fluctuations in primary commodity trade be seen in the perspective of the underlying trends affecting commodity markets. This approach is, in fact, suggested by the reference in the report of the Commission on International Commodity Trade to problems arising in compensation when fluctuations in export proceeds are due to causes of a structural origin relating to demand or supply.60

60 The main difference between the OAS scheme and that of the United Nations is that the former is simply a revolving credit fund whose benefits are confined to the countries that are largely dependent on their exports of primary commodities. The OAS Fund would be financed by capital contributions up to $1,800 million, of which two-thirds would come from the developed countries (category B) and one-third from the developing countries (category A). The contribution of the latter would be proportionate to the value of their exports, and of the former in accordance with their trade and national income levels. The sum of the Fund would be calculated on the basis of the disequilibria observed during a period of reference (1951-59), with the addition of a 20 per cent safety margin. Only the countries that are members of the International Monetary Fund would be allowed to participate. The maximum credit available to a country would be 66 per cent of its export shortfall and up to 20 per cent of the total value of its exports (computed on a three-year movable base).
thorough examination in future and that its solution must continue to be one of the most important objectives within the efforts to remodel world trade on more equitable bases.

(3) Financing of short-term fluctuations

794. In addition to development financing proper, and to the necessity of preventing or offsetting the adverse effects of the terms of trade, problems of yet another kind arise: those connected with financing requirements to cover short-term fluctuations, which fall mainly within the sphere of responsibility of the International Monetary Fund.

795. The importance of problems of this type is all the greater inasmuch as for the last ten years Latin America's monetary reserves have followed an uninterrupted downward trend, while its imports have increased.

796. While the rate of growth of monetary reserves is slower throughout the world than that of trade, and as a result insufficient liquidity is the general rule, the process obviously assumes particularly serious proportions in the case of Latin America.

797. With the exclusion of Venezuela, Latin America's total reserves amounted to $1,784 million in June 1963, a sum virtually equivalent to the average balance-of-payments deficits of the same countries in the three-year period 1960-62 ($1,736 million). These reserves, as at the same date, constituted one and a half times as much as the aggregate International Monetary Fund quotas of the Latin American countries, whereas the official reserves of the members of the European Economic Community were almost eight times greater than their IMF quotas.

798. Thus, the inadequacy of their monetary reserves makes the Latin American economies particularly vulnerable to the negative effects of their trade balances.

799. In such circumstances, the International Monetary Fund decided in February 1963 to authorize drafts of up to 25 per cent of the applicant's quota, to cover temporary shortfalls in export receipts, provided that these represented short-term downward movements, attributable to circumstances beyond the control of the member country concerned. The Fund also declared its readiness to waive the limit—200 per cent of the quota—set on its holdings of any member country's currency, whenever this was deemed necessary. For the purposes of graduating these credits, the Fund bases its calculations on the trend of export earnings, computed in terms of the income registered in the years immediately preceding the application, and on short-term prospects.

800. Although most of the countries of the region are subject to the pressure of balance-of-payments difficulties deriving from the unduly low value of their exports, it seems unlikely that they will find it easy to adapt their problem to the conditions governing these new credits. For what is undoubtedly true is that the critical situation of the region's foreign trade is not necessarily imputable to a fall in absolute levels of export earnings, although such a decline has actually taken place in some instances. While in many cases it has been successfully prevented by virtue of increases in the volume of exports that have offset price decreases, the commonest problem consists in the failure of export earnings to expand commensurately with the heavier import requirements deriving from the growth of the population and from economic development itself, largely because of the decline in the prices of staple exports. No provision is made to meet this situation in the Fund's existing regulations.

801. Even so, the efforts recently made by the International Monetary Fund, strictly within the limits of its sphere of action, undoubtedly constitute positive steps which could, moreover, be supplemented by further provisions to give them greater scope and flexibility. In this context, special mention should be made of the suggestions formulated by the Organization of American States, whose main proposals are as follows:

(a) That in determining the magnitude of the decline in export earnings, more importance should be attached to their behaviour trends in the three-year period preceding the year in which the decrease takes place than to projections of exports for the two years immediately following it;

(b) That an exception should be established whereby compensatory credits are treated as completely independent of the structure of the gold tranche and of other successive credit tranches, so that the fact of obtaining compensatory credits neither directly nor indirectly militates against a member's chances of obtaining a current credit;

(c) That the amount allocated by the Fund to compensatory financing, over and above its current transactions, should be increased from 25 to 50 per cent of the member country's quota.

802. The first of these proposals would give the scheme a higher degree of automaticity, which is a desirable aim; it could thus be further improved by the establishment of a provision that statistical evidence of a fall in income would be sufficient to sanction recourse to the Fund, with the consequent exclusion of all subjective elements from the consideration of applications.

803. The foregoing proposals would also be strengthened by a more flexible approach to the question of time limits for repayment of drafts authorized by the Fund, making them contingent upon the subsequent evolution of the capacity for payment of the country that was in difficulties. Moreover, an extension of current time limits, managed with the
judiciousness characteristic of this institution, would not affect the liquidity of the Fund.

804. Lastly, attention should be drawn—even though only in passing—to the close relationship between these aspects of compensatory financing and those connected with the problem of international liquidity, a topic which has recently been arousing increasing concern in international circles. This question is not only of interest to the industrialized countries but also of great importance for the developing regions. Whatever remedial measures are applied should take into account the fact that for the latter the problem of liquidity is not of a transient or fortuitous nature, but springs from basic causes that will have to be attacked at their very roots—that is, by a reconstruction of international trade whose explicit objectives will be support for the developing countries, broader and better balanced world trade flows, and, in consequence, a more satisfactory distribution of monetary reserves.

(4) Financing of foreign trade

805. In conclusion, to supplement the consideration of long-term development financing and compensatory financing of short-term fluctuations, attention must be turned to other problems relating to the financing of external trade flows proper. In this connexion, some allusion, however brief, must be made to their historical background, to facilitate a more precise understanding of their nature.

806. The economic crisis of the thirties brought about radical changes in the field of international financing. One of its most serious effects was to put an end to the system under which the financing of imports and the purchase of imported goods represented entirely separate and independent operations. Until then, the importer had been free to make what­ever credit arrangements suited him best in order to finance imports of the goods that were offered him on the most attractive terms in respect of price, quality and delivery times. This practice was gradually superseded by a new system, under which credit is granted to the producer with a view to its use as an instrument of competition to promote the exports of the recipient country. A new type of financing of international trade was thus created, generally known as suppliers' credit, with maturity periods ranging from 180 days to 5 years, but sometimes extended to 10 and even 12 years.

807. The virtual elimination of long-term external financing operations has compelled the capital-importing countries—i.e., those at less advanced stages of development—to have increasing recourse to suppliers' credit, as the only way of supplementing the extremely low rate of domestic savings and very limited means of external payment to the extent necessary for the attainment of a minimum acceptable rate of economic and social development.

808. Over-utilization of suppliers' credit in the financing of the economic development of less advanced countries has created serious problems both for borrowers and for lenders. The former have been gravely handicapped by a disproportionate accumulation of medium-term external debts, which has been reflected in a substantial decrease in their capacity for external borrowing and, consequently, in their development possibilities. On the other hand, the capital-exporting countries have had to cope with unremitting pressure, both on the part of the borrower countries, whose aim is to get the time limits for repayment of suppliers' credit extended, and on that of their own exporters, engaged in the struggle to secure a better competitive position and thus increase their share in the markets of the developing countries. These circumstances have contributed to the disorganization of export credit—inasmuch as it has been impossible to standardize maturity periods on the basis of the nature of the exported good and the amount of the transaction—and to its misuse as a substitute for long-term credit in the financing of development in the relatively less advanced countries.

809. This problem also has other significant repercussions. In so far as efforts to diversify the exports of developing countries make progress, the latter's opportunities of placing manufactured goods on foreign markets would be seriously limited if they had to compete with products from developed countries enjoying the support of liberal suppliers' credit. The obstacles would be still more formidable, of course, in the event of the persistence of the practice of making loans from industrialized to developing countries contingent upon the purchase of goods from the country granting the credit. Unless special mechanisms existed for the financing of exports from the less developed countries, and the latter were free to use the funds obtained for imports from the markets of origin that suited them best, it is hardly conceivable that these developing countries could come to play an active part in international trade in manufactured goods.

Conclusions

810. From the foregoing considerations, taken in conjunction, the following conclusions can be drawn:

(1) All the industrialized countries should help to finance the development of the less advanced economies, contributing resources which should at least represent a uniform proportion of their respective gross domestic products. In this context, it would be well to bear in mind the resolution of the General Assembly of the United Nations which expresses "the hope that the annual flow of international (technical) assistance and capital . . . might reach as soon as possible approximately 1 per cent of the combined national incomes of the economically advanced countries" [resolution 1711 (XVI), December 1961].

(2) If such financial assistance is to attain the fullest possible measure of efficacy, it must be envisaged as a supplement to the maximum savings effort that can reasonably be made by the borrower country. The amount, terms of payment and other conditions of external financing should be established primarily in conformity with integrated development programmes.
(3) The terms established for the servicing of external financing must take into account the magnitude of the commitments already assumed by the developing countries in relation to their cumulative external debt.

(4) It is essential that suitable mechanisms should be instituted to compensate the developing countries for any damage that may be done to their interests in the future as a result of subsequent deteriorations in their terms of growth. Here the basic principles embodied in the United Nations proposal concerning a Development Insurance Fund may prove useful, and with the necessary adjustments, the scheme put forward might effectively serve this fundamentally important end.

(5) The compensatory credit systems inaugurated by the International Monetary Fund in February 1963 constitutes a definite step towards the solution of short-term financing problems. This undertaking would gain in strength and value by the adoption of the recommendations formulated by the Organization of American States (at the sessions of the IA-ECOSOC Special Committee on Basic Products, 5-9 August 1963). It would also benefit by an increased degree of automaticity in the granting of funds, as well as from reconsideration by the International Monetary Fund of the general conditions for repayment of drafts outstanding, with a view to greater flexibility in meeting the needs of developing countries affected by circumstances beyond their control.

(6) Problems relating to insufficient international liquidity cannot be approached from the standpoint of the situation of the industrialized centres alone; the position of the developing countries must also be taken into consideration, and in their case, rather than from automaticity in the granting of funds, as well as from reconsideration by the International Monetary Fund of the general conditions for repayment of drafts outstanding, with a view to greater flexibility in meeting the needs of developing countries affected by circumstances beyond their control.

(7) The use of credit as an instrument to promote exports from the industrialized countries decisively limits the competitive capacity of exports from the relatively less developed countries. The industrialized countries should therefore adopt policies designed to standardize the application of suppliers’ credit for the short and medium-term financing of exports. To this end, the countries in question should establish uniform export credit financing and insurance practices, in co-ordination with the international financing mechanisms which, by means of appropriate credit systems, can strengthen— as one agency has already begun to do—the competitive capacity of the developing countries. This will prevent the terms of payment from constituting a determinant of the direction of international trade flows, to the detriment of basic considerations of price, quality and delivery times.

Similarly, the capital exporting countries should accord their contribution to the financing of the less developed countries’ investment programmes on terms that allow it to be used for the purchase of manufactured goods in developing countries, including the recipient, provided that the goods so purchased form part of the investment financed and that provision is made to ensure strict observance of the basic principles of competition as regards price, quality and delivery terms.

H. The institutional structure of world trade: Basic conditions

811. The new regulations and measures for the benefit of the developing countries that result from the world conference will call for a suitable institutional framework if they are to be fully effective. Such a structure is necessary for the purposes of following up the application of the regulations, carrying out studies of trade problems and prospects and making objective evaluations where disputes arise, enabling the balance of reciprocal benefits to be restored in the event of disturbance, and constantly revising the regulations to bring them into line with future requirements. As regards the basic substance of these regulations, the necessity of modifying traditional concepts and opening up new paths has been clearly shown. Similarly, the kind of institutional mechanism that is appropriate will have to be decided upon in the light of the need for trade to contribute to the smoothly co-ordinated development of the world as a whole, not with the primary intention of safeguarding time-honoured practices or existing systems.

812. This decision cannot well be made without an evaluation both of existing institutions and of the requirements that future institutions will have to meet. From such an evaluation the following important points emanate:

(a) The institutional structure of the future should be the central and unfailing source of motive-power for action to deal with world trade problems as a whole, with special attention to the needs of developing countries. At the present time, the organizations concerned with the problems of world trade are so numerous that the whole aggregate of questions seems to have been broken down into a series of clusters. Undoubtedly, various aspects of world trade must be studied and tackled separately, but this does not necessitate the dissipation and duplication of effort, or repeat the discussion of the same subject by different agencies, such as frequently takes place at present. Even more important is the fact that the sporadic agencies of today seem to lack the real capacity to look ahead and adapt themselves to changing requirements and arrange for a rational division of labour, nor do they ensure a uniform and broadly-conceived approach to the problem.

It was precisely these shortcomings which constituted one of the mainsprings of awareness of the need to convene the United Nations Conference on Trade and Development, even for the countries that are members of many of the existing agencies. It would therefore seem essential that the Conference itself should serve as a basis for the creation of the future institutional mechanism, and this requirement is of particular importance for the developing countries.

(b) The principal function of the new institutional structure must be to ensure, in the first place, that the decisions of the Conference are complied with, and, as regards the future, to guarantee the possibility of reaching new decisions whenever this is deemed necessary. Its basic objective, of course, will have to
be the development of international trade into an essential instrument for the more equitable distribution of world income. It is true that the existing organizations have studied many of the problems with which the developing countries have been faced, and since the publication of the Haberler report, GATT has devoted increasing attention to these questions. But more than five years have gone by since then, and the results achieved have been notably slow and unsatisfactory in relation to the urgency of the problems concerned. Too much time has been spent on mere analyses, instead of the establishment of definitions and the widespread adoption of specific commitments. While it is not necessarily the international organizations that are chiefly responsible for this state of affairs, but the Governments themselves, whose consent is necessary for any progressive measure, the dogmatic nature of certain regulations (such as the most-favoured-nation clause) which are applied indiscriminately to countries in widely differing situations and the minimal representation of the developing regions (for example, in GATT) have probably added to the difficulties of exploring new avenues.

The United Nations Conference, then, affords an opportunity to do away with some of these drawbacks and reconsider rules and regulations in the light of the needs of the immediate future. The problem of world trade in particular must from now on be considered jointly with development and financing problems. Once the content of the regulations and measures adopted to this end has been clarified, it will be possible to determine what form should be taken by the new institutional structure required for the implementation of the decisions adopted as regards the substantive aspects of the regulations.

(c) The institutional mechanism of the future must ensure the effective observance and application of the regulations established. Experience shows that existing regulations are not strictly observed, and there is a certain tendency to accept faits accomplis. Although GATT contains a provision (Article XXIII) under the terms of which the balance of benefits can be restored if any benefit accruing to a Contracting Party is nullified or impaired, it has seldom been invoked, partly because the procedures established are so awkward and toilsome as to constitute yet another discouraging factor. Moreover, the need to secure a decision by the organization in plenary might mean that political considerations and mere voting power carried weight in a matter that should be settled on the basis of strictly legal and economic criteria.

If in the future the international organization is to retain the confidence of its members, the institutional mechanism must be consonant with its needs and requirements. Consequently, this mechanism must be strong and efficacious. Otherwise, it could not impose its authority on increasingly powerful regional groupings which tend to justify their non-observance of world trade rules on political grounds. The stronger the organization, the more effectively it will be able to discourage infractions. An advisable move, therefore, would be to buttress the procedure for restoring counter-measures if, within a reasonable space of time (four months, for example) after the presentation of its appeal to the appropriate agency, the latter had taken no decision either way. The injured party should likewise be free to apply unilateral counter-measures if, within the same period, the other party did not comply with the recommendations made to it. Such measures should not be applicable on the basis of the most-favoured-nation clause, but should be permitted to be directed solely against the country infringing the regulation. They would continue in force until the agency had issued its verdict on the existence of the infraction and on the appropriateness of the counter-measures in question. Thus the party submitting the complaint would not find its hands tied in face of faits accomplis. Lastly, it should be made clear that counter-measures could be adopted not only by the country whose interests had suffered, but also by countries which the infraction did not directly affect. In view of the inequality between the major countries and regional groupings on the one hand, and many of the smaller countries of the world on the other, individual self-defence is frequently ineffectual. The establishment of the right of collective self-defence in trade matters, on the same lines as are laid down in Article 51 of the Charter of the United Nations, might provide countries whose bargaining power was limited with a means of inducing the stronger nations to keep the rules.

(d) The institutional structure of the future must be universal in its scope. At the present time, for example, many of the developing countries and most of the centrally-planned economies are not contracting parties of GATT. World trade constitutes a single whole; trade between different categories of countries or in respect of certain products can be analysed separately, but measures adopted in one direction inevitably affect trade with other groups. Consequently, the United Nations Conference must lay the foundations for this universality. If regulations designed to promote the trade of the developing countries could be adopted by common accord, and if it were possible to establish commitments of equivalent effect for trade with the centrally-planned economies, the logical result should be a universal institutional structure, incorporating countries at different stages of economic development and with different economic systems. But universality should not consist merely in the setting-up of a forum for discussion; on the contrary, it should be based on a series of specific regulations of real significance that would link up all the members of the world trade community.
The future institutional structure

Thus to fulfil these aims and conditions, an adequate institutional organization is essential. From a number of standpoints the framework of the United Nations itself would provide a suitable basis for a body of this kind. The universality of membership lacking in GATT is a feature of the United Nations, as demonstrated by the fact that Members both of the Organization itself and of the specialized agencies will be taking part in the Conference on an equal footing. The United Nations has always placed the main emphasis on economic development problems, and international trade problems have always been analyzed, both in the secretariat and in the regional economic commissions, in relation to the more general problems of economic development as a whole. A new organization within the framework of the United Nations itself could give effect to the resolutions and ideas adopted by the Conference, and ensure that they were given due priority. Furthermore, a new institution could be organized on rational and up-to-date lines, which would be more difficult if an existing structure were remodelled. It is true that the United Nations' first attempt to set up a world trade organization of this kind, under the Havana Charter, was a failure. Yet fifteen years later, the problem of world trade not only remains unsolved, but has become far more pressing, because of the constant deterioration in the situation of the developing countries. It is incumbent upon the United Nations to deal thoroughly with this problem as indeed it has already begun to do.

A new organization of this type could both take over the rules of GATT and make full use of its valuable accumulation of experience, subject to approval by the Contracting Parties. There would also have to be agreement with other United Nations organizations, such as FAO, the International Monetary Fund and the World Bank, on a rational division of labour.

It has been suggested as an alternative that GATT itself could constitute the new organization, by improving its rules and procedures in line with present-day needs. Such a solution seems neither simple nor necessarily advisable, in view of the far-reaching changes that would have to be introduced in its membership, structure, rules and procedures. Of the 131 States Members of the United Nations, only fifty-eight are Contracting Parties to GATT, while a further fifteen countries are subject to special terms giving them the right to speak but not to vote. Moreover, the changes required in world trade must, if they are to contribute effectively to the developing countries' economic growth, be based on positive rules. They can hardly be introduced as mere exceptions to such generally applicable rules as the most-favoured-nation clause. If the problem is approached only in terms of new exceptions, it is not to be expected that the necessary institutional framework will emerge based on positive rules whose application is to achieve all the objectives sought. In all probability, too, the new exceptions to the general rules could be put into effect by a Contracting Party only if each and all of them had previously deposited the instrument of ratification for the amendment in question. To accomplish this might prove no less difficult than concluding and applying a new international agreement, whose rules would permit recourse to positive measures of international cooperation in relation to the developing countries' foreign trade problems.

Agencies equipped to take immediate action

To put into practice the solution proposed above would necessarily take some time. In view of the developing countries' pressing needs, agencies equipped to take immediate action should be established at the Conference itself. Such bodies should as far as possible meet the basic requirements set out above. Full use should be made of the existing organizations, through full co-ordination of their efforts. The immediate action system could group together several main institutions, with the United Nations Conference on Trade and Development, which would meet again within one or two years, as the central component. Meanwhile, the preparatory work for establishing a permanent trade organization could proceed, and appropriate steps could be taken at once to give impetus to its main activities. Similarly, studies could continue on problems relating to the developing countries' foreign trade deficit, and a start could be made on formulating an international trade policy aimed at achieving at least the minimum growth rate proposed by the United Nations.

To ensure a continuing impetus, the Conference would have a standing committee and an independent specialized secretariat, with its own budget within the framework of the United Nations. The secretariat would consist of a small but highly qualified group which would work closely with the United Nations regional economic commissions. The latter could deal first with the problems at the regional level thus helping to build up first-hand knowledge of the problems of each region thereby ensuring that the work is always related to development needs.

On the basis of a decision by the Conference, and acting under its auspices, four special agencies would operate, as follows:

(a) A special committee would promptly transform any decisions and new principles arrived at by the Conference into a special agreement between the developed and developing countries, which would constitute the future code of regulations applicable to trade relations between the two groups of countries. For countries which are also Contracting Parties to GATT, this agreement would supplement the existing rules and would replace them where necessary. The committee would further assume certain responsibilities in the application and negotiation of commodity agreements on times of particular concern to the developing countries. In this connexion, it would see that the institutions administering commodity agreements duly applied the principles approved by the Conference.

(b) A special committee, open to all countries wishing to participate, would concern itself with the relations between the countries with centrally-planned economies and the market economy countries. One
of its first tasks would be to set up machinery to promote greater fluidity in and expansion of trade between the developing countries and the State-trading countries. Moreover, with a view to the future establishment of a world trade organization, the committee could, in the light of experience, work out rules applicable to countries with centrally-planned economies that would have an effect equivalent to those applied to the market economy countries.

(c) A special committee would devote its efforts to strengthening the links between the developing countries as a whole, particularly those of different continents. In the first place, it would study ways of increasing trade between the different developing continents, mainly by suggesting specific formulae for establishing a properly organized system of substantial preferences between the developing countries. On the other hand, it would seek to establish the basis for ensuring a common defence of the developing countries' interests, especially in relation to commodity agreements. Although the developing countries already have, in the regional economic commissions, instruments to promote mutual co-operation on a regional scale, they also need an institution that will strengthen the solidarity between different continents and will keep alive the awareness of their common interests. A committee of this nature is all the more essential as the practical links between the developing countries weaken while their common needs become more urgent. The United Nations regional economic commissions in Asia, Africa and Latin America would help in the task of this committee, organizing the necessary inter-secretarial and inter-governmental contacts.

(d) GATT would continue to be the negotiating body between its Contracting Parties, on the basis of its existing rules and within its present sphere of authority. It would seek, in particular, to put into practice measures designed to eliminate preferences, restrictions and, in general, situations adversely affecting world trade and development, in accordance with the Conference resolutions and recommendations, without prejudice, however, to its autonomy.

819. In conclusion, it should be stressed that while these bodies envisaged as providing a temporary solution can do useful groundwork for the subsequent establishment of a universal organization, they can in no way take its place. Everything depends on the extent to which the participants in the Conference are prepared to accept the rules that are essential for trade between countries at varying stages of development and with different economic systems. It would therefore appear that at the forthcoming Conference attention should be concentrated mainly on the essence of the rules and measures needed, and only as a consequence of these, on the institutional framework in which they will be incorporated.

Conclusions

820. The foregoing considerations form the basis of the following conclusions:

(1) A specialized international organization must be set up within the framework of the United Nations to deal with all international trade problems in relation to development needs. This organization should have universality of membership, should enforce new rules and measures and should constantly provide the main impetus to all trade activities within the context of economic development.

(2) Until such time as the instruments for setting up a permanent organization of this kind have been perfected, it is essential to establish bodies for immediate action with, as their central organ, the United Nations Conference on Trade and Development, which would meet again within one or two years. This Conference would have a standing committee and an independent specialized secretariat with a budget of its own, which would work in close cooperation with the United Nations regional economic commissions. They would also lay the groundwork for a future trade organization, while in the meantime formulating a trade policy that would make it possible to achieve and maintain at least the minimum growth rate set by the United Nations. Four essential bodies would operate under the auspices of the Conference:

(a) A committee to take care of the relationships between the developed and developing countries, which would speedily transform Conference decisions and recommendations into a special agreement that would govern the trade relations between these two groups of countries;

(b) A special committee in charge of the relationships between the countries with centrally-planned economies and the market economy countries;

(c) A special committee which would operate in close association with the United Nations regional economic commissions to strengthen the links and solidarity between the developing countries as a whole, particularly those of different continents; and

(d) GATT, as a negotiating body between its present Contracting Parties, to promote world trade within its existing sphere of competence, in the light of the general guide-lines emerging from the Conference.

METHODOLOGICAL ANNEX*

1. CLASSIFICATION OF COUNTRIES

In tables 2 to 5, 9, 10, 21 and 22, and figure I, countries have been classified, on the basis of the economic criteria adopted by the United Nations into the three following groups:

(a) Developed areas: United States, Canada, all the western European countries, Yugoslavia, Japan, South Africa, Australia and New Zealand;

* This annex relates only to chapter I of the present document.
(b) Countries with centrally-planned economies: the Soviet Union, the countries of eastern Europe (except Yugoslavia), mainland China, North Korea, Mongolia and North Viet-Nam; and

(c) Developing areas: all the remaining areas and countries in the world (including the whole of Latin America).

Tables 6 and 11 to 17 are based on statistical data contained in GATT's annual reports on international trade. GATT has classified all countries in three broad groups: industrial areas, non-industrial areas and countries with centrally planned economies. This classification differs from that of the United Nations only in that GATT includes South Africa, Australia and New Zealand among the non-industrial areas, whereas the United Nations classification places them among the developed areas. For the sake of convenience in compiling the statistics, Finland, Greece, Iceland, Ireland, Spain, Turkey and Yugoslavia have been included in the developed and industrial areas, respectively, in the two classifications.

2. CLASSIFICATION OF PRODUCTS

Tables 6 and 11 to 17 have been taken from GATT, *International Trade* 1961 (Geneva, 1962). The composition of the product groupings is as follows:

- **Foods and raw materials:**
  - (a) Foods, beverages, tobacco, etc. (sections 0 and 1 of the revised SITC), in the form of preparations and otherwise;
  - (b) Raw materials (sections 2 and 4 of the revised SITC, except division 28), including hides and skins; oil-seeds; rubber; wood, lumber and cork; pulp and waste paper; textile fibres (not manufactured); crude fertilizers, and other animal and vegetable materials;
  - (c) Metalliferous ores (and metal scrap) (division 28 of the revised SITC);
  - (d) Fuels (section 3 of the revised SITC), including solid and liquid fuels, crude or refined; gas; and electric energy.

- **Manufactured products:**
  - (a) Capital goods (section 7 of the revised SITC, excluding item 732.1, passenger motor cars);
  - (b) Base metals (divisions 67 and 68 of the revised SITC); this covers iron and steel and non-ferrous metals;
  - (c) Consumer goods (divisions 65 and 84 and item 732.1 of the revised SITC). This includes textile yarn, fabrics, made-up articles and related products; clothing; and passenger motor cars;
  - (d) Other products (sections 5, 6, 7 and 8 of the revised SITC, excluding divisions 65, 67, 68 and 84). This covers all manufactured goods not classified in the preceding groups.

- **Residue:**
  - (Section 9 of the revised SITC.) This covers commodities and transactions not classified according to kind.

The above classification has been used in the text, and the term "primary commodity" designates the items included under "foods and raw materials", despite the fact that some of them (foods, wood, fuels, etc.) undergo a certain degree of industrial processing.

3. PROJECTION OF IMPORTS AND OF THE POTENTIAL DEFICIT

(a) Economic development prospects under existing internal and external conditions

Table 38 summarizes the results of a system of projections, on available resources and their internal and external use, for Latin America (excluding Cuba) for 1966 and 1970.

The gross domestic product and imports were projected by extrapolating into the sixties the respective growth rates during the post-war period, namely 4.7 and 3.9 per cent. On the same basis exports were projected in accordance with an annual cumulative growth rate of 2.7 per cent, which is slightly higher than that resulting from the detailed analysis of Latin America's export products made in section A of chapter III.

The projected gross product and imports cover all resources available, and in table 38 these are classified by destination (for exports and for internal use in consumption and investment).

The figures in table 39 indicate the potential deficit in external payments that would result from this hypothesis of the growth structure.

The first stage was to estimate current foreign exchange liabilities for imports of goods and services and for profits and interest on foreign investment loans. Comparison of these liabilities with earnings from exports of goods and services gives a preliminary estimate of the potential deficit on current account.

The next stage is to estimate the amortization payments for the relevant years in the sixties, for short-term and long-term debts outstanding against the Latin American countries. If these amortization payments are added to the potential deficit on current account, an estimate of the potential deficit is obtained that will represent the total capital inflows required to meet the deficit.

In these projections no account is taken of profits, interest and amortization payments on new direct investment or on any additional debt that may be incurred as a result of the deficit indicated.

The profits and interest on foreign investment and loans was estimated, firstly, on the basis of the profit margin recorded in the various countries during the last years of the fifties for foreign direct investment, and secondly, by using the calculations of the servicing of external debt outstanding made by the countries themselves. In a few cases the estimate had to be based on the debt existing at the end of 1962 and on an assessment of its terms and conditions.

The basic data needed for estimating external payments for financing servicing is incomplete and defective. Nevertheless the total estimated figures appear to be a reasonable approximation that indicates the order of magnitude of these liabilities.
(b) Projection of imports and potential deficit on the assumption that the growth rate of the product is increased and that the demand-for-imports pattern remains as it was during the fifties

Table 42 gives another group of projections of imports and of the potential deficit. Here the target growth rate for the gross product is an annual cumulative rate of 5 per cent for 1961-65 and 6 per cent for 1965-70 for Latin America as a whole, excluding Cuba.

The technical analysis aims at determining what will be the potential deficit or gap in the balance of payments in accordance with the various hypotheses of import requirements implied by these projections of the product. Exports of goods and services, profits and interest on foreign investment and loans, and amortization of existing debt were projected by the method outlined in the preceding paragraph. Consequently it will suffice here to describe the methods used for the alternative projections of imports.

The annual imports for each country for 1948-61, expressed in dollars at 1960 prices, were grouped under the following headings: (a) durable consumer goods; (b) non-durable consumer goods; (c) fuels; (d) raw materials and intermediate products; (e) building materials, and (f) capital goods.

An analysis by countries was made to determine the ratios of imports of each of these groups of goods to the product, consumption and investment. A regressive logarithmic equation was calculated for each of the following pairs of variables, expressed in per capita terms:

(a) Imports of non-durable consumer goods in relation to the gross domestic product or to private consumption, the equation selected for the projections being that which gave the highest correlation coefficient;

(b) Imports of fuels in relation to the gross domestic product;

(c) Imports of raw materials and intermediate products in relation to the gross domestic product;

(d) Imports of capital goods in relation to gross fixed investment;

(e) Private consumption in relation to gross domestic income.

The results of this study are shown in table 41, which gives the elasticity and correlation coefficients for the equations obtained for each country and for each group established.

This table shows that in many cases the correlation is not significant, the coefficient being very low. This is because the imports recorded are affected by a number of economic and administrative factors, and the statistical coverage is incomplete.

Internal consumption and investment were projected on the basis of the respective hypothesis of the growth of the product. In estimating investment, use was made of the product-capital coefficients implicit or explicit in the development plans of the Latin American countries. Where no plans existed, the coefficients adopted were those established in earlier ECLA studies, or else those for countries with similar economic characteristics were used.

In this way the independent variables were established, for 1966 and 1970, against which import ratios could be worked out, according to the method already described.

In those countries and for those products for which the correlation coefficient obtained was very low, the projection of imports was based on the proportion of the import content for the items concerned recorded for those countries in the last years of the fifties. This was done, for example, in the analysis by countries, for Argentina and Chile, and also, in some cases, for durable consumer goods and fuels in the analysis by groups of imports.

Once imports were calculated and the other variables referred to were established, it was possible to arrive at the potential deficit in the balance of payments on current account, as shown in table 42.

(c) Projection of imports and potential deficit on the hypothesis of an expansion in the substitution process

In order to establish a point of reference for determining the changes that the potential deficit may undergo, two other calculations were made on imports which in fact involve assuming an expansion in the import substitution process that has been taking place (see table 43).

Calculation A consists basically in assuming that the countries that reduced their import coefficient after 1948 will continue to restrict imports in the sixties, on the same relative scale, and that both the countries in which there was an increase in this coefficient, and those where it remained stable, would maintain a coefficient in the sixties close to the average for 1959-61. Once the coefficients for 1966 and 1970 had been established on this basis, total imports were calculated by applying the coefficients to the absolute levels of gross product projected for those two years.

Calculation B, which is illustrated in figure VI, represents only an assessment for the purpose of supplementing calculation A. A function was calculated relating total imports to the gross domestic product of each of the countries considered, on the somewhat extreme assumption that imports are a function of the economic level of a country as measured by its gross domestic product. The result given by this function was \( M = 0.529P^{1.823} \), where \( M \) represents total imports and \( P \) is the gross domestic product. Thus total imports for 1966 and 1970 were estimated by introducing into this equation the values for the projected gross product for each country.
REPORT BY THE SECRETARIAT OF ECLA ON THE MEETING OF LATIN AMERICAN GOVERNMENT EXPERTS ON TRADE POLICY* 1

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INTRODUCTION

1. This report summarizes the activities of the Meeting of Latin American Government Experts on Trade Policy, held at Brasilia from 20 to 25 January 1964, preparatory to the United Nations Conference on Trade and Development.

2. On 8 December 1962, the United Nations General Assembly adopted resolution 1785 (XVII) in which it endorsed the decision of the Economic and Social Council, as stated in resolution 917 (XXXIV), to convene a United Nations Conference on Trade and Development. In its resolution, the

* This document was prepared by the secretariat of the United Nations Economic Commission for Latin America on the meeting held in Brasilia, 20 to 25 January 1964. It is being circulated in connection with item I of the list of main topics [see Interim Report of the Preparatory Committee (first session), in Vol. VIII of this series].

1 The preliminary version of this report was submitted to the tenth session of the Committee of the Whole of the Economic Commission for Latin America under document Nos. E/CN.12/AC.57/ST/ECLA/CONF.13/L.7. The present revised version includes the suggestions made by some countries regarding Part II (Account of proceedings prepared by the Secretariat).
Council requested the regional economic commissions, the specialized agencies and other related international organizations concerned with international trade to assist in the preparation of appropriate documentation and proposals for such a conference.

3. At its tenth session, held at Mar del Plata, the Economic Commission for Latin America (ECLA) acted on the recommendations contained in the aforementioned resolutions. It considered that "sufficient background data must be prepared to enable the Latin American countries to adopt a concerted position, and that their problems and prospects must be put forward in clear and convincing terms if Latin America is to take due advantage of the opportunity afforded by the United Nations Conference on Trade and Development to find a satisfactory solution to their foreign trade problems". It further requested the secretariat to hold a seminar on the United Nations Conference on Trade and Development, prior to the conference in question, the seminar to be conducted with the co-operation of specialists appointed by the Governments of all the Latin American countries. The purpose of the seminar would be to promote "more efficient preparation and fuller mutual knowledge of those problems of the countries of the region which are to be discussed at the Conference".

4. Acting on the above instructions, the ECLA secretariat prepared the document entitled Latin America and the United Nations Conference on Trade and Development, in co-operation with a group of eminent Latin American consultants who met for that purpose at Santiago, Chile, in October and December 1963. The document in question served as a basis for the discussions of the Meeting covered by the present report.

5. This report is divided into three parts: Part I deals with membership, attendance and organization of work; Part II consists of a summary of the debates, prepared by the ECLA secretariat; Part III comprises the conclusions approved by the experts, which are to be submitted to the Governments for consideration.

I. MEMBERSHIP, ATTENDANCE AND ORGANIZATION OF WORK

A. OPENING AND CLOSING MEETINGS

6. The Meeting was inaugurated on 20 January 1964 in the Red Room of the Hotel Nacional, Brasilia. On behalf of the Government of Brazil, H. E. J. Augusto de Ariojo Castro, Minister for Foreign Affairs, welcomed the representatives. Mr. Francisco Apodaca y Osoa, representative of Mexico, replied on behalf of the participants. The inaugural meeting ended with a statement by Mr. José Antonio Mayobre, Executive Secretary of ECLA.

7. The closing ceremony was held on 25 January. Statements were made by Mr. Bernardo Grinspun, representative of Argentina, Mr. José Antonio Mayobre, Executive Secretary of ECLA, and Mr. Celso Furtado, Chairman of the Meeting.

B. MEMBERSHIP AND ATTENDANCE

8. The Meeting was attended by 104 experts on trade policy, representing the Governments of the following countries: Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Cuba, Dominican Republic, Ecuador, El Salvador, Guatemala, Haiti, Honduras, Mexico, Panama, Paraguay, Peru, Uruguay and Venezuela.

9. Moreover, representatives of the following organizations attended by special invitation: Organization of American States (OAS), Inter-American Development Bank (IDB), Latin American Free Trade Association (ALALC), Latin American Centre for Monetary Studies (CEMLA), Panel of Nine appointed by the Inter-American Economic and Social Council, and the Permanent Secretariat of the General Treaty on Central American Economic Integration (SILCA).

C. ORGANIZATION OF WORK

10. At the first plenary meeting, Mr. Celso Furtado of Brazil and Mr. Manuel F. Chavarria of El Salvador were elected Chairman and Vice-Chairman of the Meeting respectively.

11. The work of the Meeting was divided among two Committees. Committee I, under the chairmanship of Mr. Bernardo Grinspun (Argentina), considered agenda items 2 and 3, while Committee II, whose Chairman was Mr. Carlos Valenzuela of Chile, discussed items 5, 6 and 7.

D. AGENDA AND DOCUMENTS

12. The work of the Meeting was based on the following agenda:

- Opening ceremony
- Election of the Chairman of the Meeting
- Measures for solving primary commodity trade problems
- Diversification of the composition of exports
  - Trade in manufactures and semi-manufactures
  - Trade in invisibles
- Policy with respect to the geographical diversification of trade
  - Possibilities of trade with countries having a centrally planned economy
  - Possibilities of trade with other areas in the process of development
- Regional integration and Latin American foreign trade
- Trade financing and economic development
- Organizations and measures for the promotion of world trade
- Consideration of the report and conclusions of the meeting

Documents:
- Temario (ST/ECLA/CONF.13/L.1/Rev.1)
- Latin America and the United Nations Conference on Trade and Development (ST/ECLA/CONF.13/L.2)

*See Annex for the complete list of participants.
*For the English text of the agenda, see above.
La Posición latinoamericana ante la Conferencia de las Naciones Unidas sobre Comercio y Desarrollo. Nota de la Secretaría (ST/ECLA/CONF.13/L.3) (available in Spanish only)
Informe de la reunión extraordinaria del Subcomité de comercio centroamericano (ST/ECLA/CONF. 13/L.4) (available in Spanish only)

II. ACCOUNT OF PROCEEDINGS PREPARED BY THE SECRETARIAT 4

A. GENERAL CONSIDERATIONS AND PRINCIPLES

13. The proceedings of the Meeting conduced to the definition—in its essential outlines—of the concerted position that Latin America might take up in face of the basic problems shortly to be tackled at the United Nations Conference on Trade and Development. The feasibility of thus establishing a united front was not, of course, unconnected with the systematic study of the region's foreign trade and development problems which had been carried out over many years by the countries of the region, through ECLA and other international agencies, and by means of which it had been possible to build up a substantial body of knowledge and to achieve a steadily increasing degree of mutual understanding and solidarity with respect both to common problems and to those particularly affecting individual countries or groups of countries in Latin America.

14. The unanimous agreement reached by the government experts on each and all of the agenda items was also partly attributable to the fact that the United Nations Conference on Trade and Development would be the first opportunity since the Havana Conference, fifteen years before, to consider, at the world level, the basic problems of international trade and the solutions that were indispensable in the contemporary world. During the interval, significant events had taken place, which set a very different stamp upon the forthcoming Conference.

15. The subject of the Conference itself reflected the influence of the events in question. International trade problems were no longer to be studied for their own sake alone, but as an essential part of the more general problems of development. Poverty and discontent had ceased to be matters of concern solely to the countries where they were rife, and in the world of today the increasing disparities between the levels of living of the different peoples could not be accepted as part of their appointed lot; on the contrary, it was recognized that all countries should feel it their duty to join in remedying such a state of affairs, and particularly those that the vicissitudes of history—and, in part, the characteristics of the past evolution of their international trade—had placed in the van of development. Thus, the result of the Conference would have to be evaluated in the light of the efficacy of the decisions adopted, from the standpoint of speeding up the growth rate of the developing countries and promoting an upward trend in world income.

16. The experience of recent years enhanced the importance of this objective, since it was a well-known fact that the rate of economic growth in the developing regions was nothing like as intensive as could be desired, and in the particular case of Latin America the slackening of tempo had been yet more marked. One of its most potent determinants had been the unfavourable evolution of the external sector, which, far from constituting a source of dynamic impetus, had been an obstacle in the way. The slow growth rate of exports and the deterioration of the terms of trade had limited external purchasing power, while at the same time demand for imports was expanding as a result of the requirements of development itself, with the result that disequilibria were aggravated and pressures were created that were difficult to control.

17. In the existing circumstances, the problem presented itself in even more difficult terms, since in many Latin American countries the external sector's lack of dynamism had given rise to an increasingly intensive process of external borrowing, and the incidence of the servicing of such external debts in foreign exchange had reached levels so high as to necessitate a complete restatement of the problem, and a search for the effective and lasting solution implied by a more active international trade, channelled in the direction of new patterns and procedures.

18. The reorientation of international trade and the restoration of its dynamic force would supply the basic solution needed, but would involve a herculean labour of reconstruction. The detailed analysis of the many special problems inherent in such a task led in the course of the proceedings to the formulation of a series of specific conclusions, implying the adoption of vitally important decisions at the world level. In most cases, those decisions were only to a very slight extent the exclusive province of the developing countries themselves, for they would depend mainly upon joint action, with the full participation of the industrialized countries. Obviously, it should not be inferred that the latter ought to shoulder the entire responsibility for the less-advanced countries' development effort, which was primarily the business of the interested countries themselves. Decisions to introduce internal structural reforms that were essential prerequisites for improving the living conditions of their population, efforts to formulate planned economic and social development policies, and the moves towards regional economic integration that were already registering significant progress were all steps towards the fulfillment of the task in question. But the efficacy of such endeavours was being seriously hampered by the obstacles that the prevailing characteristics of foreign trade still placed in the way. If they were not surmounted, many undertakings would continue to prove fruitless, and legitimate aspiration towards betterment, whose satisfaction could not be indefinitely deferred, would be doomed to frustration.

19. Such problems constituted the background for the discussions on particular topics held in the course of the Meeting. The fulfillment of the external requisites that would enable the Latin American countries' own efforts to bear fruit inevitably involved nothing less than the establishment of a new and authentically

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4 This is an interpretation by the secretariat of the discussions held by the government experts during the Meeting. The conclusions approved by the experts are contained in Part III.
world-wide economic order. The new system advocated would act as a powerful stimulus to the more rapid growth of the developing economies, and would do away with the shortcomings of the existing structure, which for the past few decades had been basically determined by the interest and problems of the highly industrialized countries.

20. Accordingly, the experts made it perfectly clear that within the reconstruction process under discussion world trade could no longer be governed by the automatic application of rigid principles. Nor could it be based on—and calculated to maintain—inequality between countries; on the contrary, it should be guided by rules of solidarity and cooperation deliberately designed to eliminate that inequality and establish an international system which would also meet the needs of the less developed countries. Just as at the Meeting then in progress the Latin American countries had succeeded in converting a united approach consistent with the special requirements and characteristics of countries at relatively less advanced stages of economic development, so there seemed to be no good reason why solutions equally satisfactory from that standpoint should not be reached at the United Nations Conference on Trade and Development.

21. The flexibility that would necessarily characterize the new international trade order whose foundations were to be laid at the Conference would have to derive from a set of general and widely applicable rules and principles. Some of them related to the nature and scope of the system. Others concerned the type of relations that would have to be established between the developed and the developing countries.

22. With respect to the former, it was stressed in the course of the Meeting that an indispensable prerequisite for the attainment of a system which met the needs of all developing countries was the complete abolition of the discriminatory preferences established by certain industrialized countries and groups of countries in specific geographic areas; they had long been hindering the expansion of Latin America’s exports, and had decisively contributed to the reduction of the Latin American countries’ share in world trade. That was not a new or recent contention. On the contrary, it constituted one of the basic principles that Latin America had long been urging, especially since the Havana Conference. It was clearly shown, moreover, that there was no reason why the elimination of the above-mentioned preferences should be detrimental to the interest of the countries affected, and, similarly, that it was not justifiable for the co-operation they received from the developed countries to militate against the economic and trade interest of the Latin American republics.

23. In the same context, the experts pointed out that if an appropriate solution was to be found for existing problems and the development and organization of trade were to be more satisfactory in the future, the geographical scope of international trade should be as broad as possible, and suitable conditions should be established for the expansion of trade flows, on reciprocally advantageous terms, between countries with different economic systems, as well as between developing countries in different continents.

24. With reference to economic and trade relations between the developed and the developing countries, the view was expressed that the adoption of a new framework of rules and principles would in several cases involve a radical revision of certain basic tenets that had hitherto governed international trade. A fundamental criterion emphasized by the experts, in the discussion of the various agenda items, was that, in order to consolidate the position of trade as the essential factor—among those of external origin—in the future growth of the developing countries, it was of the greatest importance that the industrialized countries should afford products from the less developed countries full access to their markets. That would entail not merely the elimination of the tariff barriers and other restrictions currently impeding the flow of goods in question, but also actual measures to encourage it, in the shape of new systems of preferences. Such preferences should be conceived on the basis of a non-discriminatory multilateralism, as yet non-existent, by virtue of which they would be granted by all the developed to all the developing countries.

25. It was also pointed out that if preferences were really to result in an expansion of the developing countries’ export trade, they should not be made extensive to the developed countries. Similarly, they would have to be granted unilaterally, without the exaction of reciprocal concessions. Hence, an appropriate revision of the traditional principles of reciprocity and of those that had hitherto regulated the application of the most-favoured-nation clause was felt to be an essential requisite for any effort to reorganize international trade on more equitable bases, better adapted to development requirements. Obviously, only thus could the gap between the developed and developing countries begin to be closed by a far-reaching and energetic process of direct co-operation, of fundamental interest to both groups, whereby all would benefit.

26. With regard to the repercussions of regional economic groupings on the foreign trade of the developing countries, the Meeting approved the following text, to be included in the section on general principles.

(i) The developed countries which have formed or wish to form regional groupings should realize that in adopting this procedure they assume special responsibilities in relation to the developing economies. By liberalizing their own reciprocal trade in primary commodities and industrial goods, they create, de facto, new disadvantages for existing and future exports from the developing countries. An essential, although not the only, requisite is that the developed countries should strictly observe the rules under which the over-all incidence, on the trade of third countries, or the barriers established by such regional groupings must not be higher than that of the tariffs existing before their formation. It is likewise essential that the developed countries, at the time of concerting the said groupings, should adopt specific measures for the effective lowering
of trade barriers, so that the export prospects for each individual commodity of interest to the developing countries may not suffer by the formation of the groupings.

(ii) Failure to apply these principles, particularly on the part of the European Economic Community, has adversely affected export possibilities for those Latin American countries which are at present or might in the future become exporters of tropical and temperate-zone agricultural commodities, as well as of industrial goods. Consequently, Latin America trusts that the developed countries in question will lose no time in adopting appropriate measures to guarantee, in relation to each category of products, that the existence of the regional groupings will not have unfavourable effects on the trade of the developing countries.

(iii) It is highly important that these principles be observed, so that the developing countries may preserve an outward-looking approach to their own economic integration processes. Only in such conditions will they be able to continue enjoying the benefits of a satisfactory international division of labour during their integration process, and to maintain an optimum flow of the imports they need for their economic development.

27. The specific conclusions in which the Meeting endeavoured to sum up the essential aspects of its discussions, and of which the text is given in later sections, related not only to the topics already mentioned, but to a wide range of subjects reflecting the complexity of the problem: questions concerning particular groups of products; requirements and prospects for the increasing diversification of Latin America's exports; extension of the region's trade relations to other areas; problems bearing on the financing of trade and development; the future organization of international trade; and so forth. It was thought advisable that the individual consideration of such points should be preceded by an over-all evaluation, in order to stress the fact that there was no question of piecemeal recommendations, among which orders of priority could be established, or some could be accepted and others rejected. Such was not the case. All went to shape a single solution, so that they were only parts of an integrated whole that could not be broken up without serious risk of depriving them of all their efficacy. That did not signify a lack of flexibility or positive rigidity with regard to modes and procedures, such as might detract from the region's bargaining power and ability to reach understanding with other areas, especially those that were also in process of development; but it did clearly imply that there was a minimum of essential and closely inter-related objectives, which would have to be attained if a satisfactory solution was ever to be reached.

28. It was no exaggeration to assert that the future of Latin America largely depended upon the relevant decisions finally adopted at the world level. What should be advocated was the increasing integration of Latin America's development with the world community, and the exploitation, to the benefit of all, of the advantages of an international trade built up on rational and equitable foundations. Such was, in the last analysis, the essential gain that it might be hoped would result from the discussions of the forthcoming United Nations Conference on Trade and Development.

B. TRADITIONAL PRIMARY EXPORTS

(a) Tropical products

29. The discussion of the problems and prospects of trade in tropical products hinged upon the fact that these constitute a substantial proportion of Latin America's total exports, and that for some Latin American countries in particular their share in this branch of trade is of decisive importance.

30. In the course of the discussion, attention was devoted to the various kinds of restrictions and barriers that had been limiting Latin America's capacity to expand its foreign trade in tropical products. The high internal taxes on consumption to which they were subject in various industrialized countries, the unjustifiably high costs of processing and marketing them in some of the countries in question, and the maintenance of various forms of discrimination and import restrictions—whether in relation to raw materials or to processed goods—were all factors whose persistence would aggravate the difficulties under which Latin America's exporter countries were already labouring, and would confront them with yet more formidable obstacles during the coming years.

31. The problem of internal taxes on tropical products in a number of the developed countries was felt to deserve careful consideration because of the magnitude that such taxes might attain. The estimates to hand indicated that in specific instances—as, for instance, in the case of coffee exports from Latin America to the European Economic Community—the total fiscal charges levied by the importer countries amounted to sums larger than those the exporter countries received. The high costs of processing and marketing some tropical products in certain industrialized countries generally produced similar effects. Indubitably, the accumulation of such taxes and mark-ups in the course of the distribution process curbed the growth of demand in the countries concerned, thus militating against the developing countries' possibilities of increasing their export earnings. On both these points the Meeting formulated specific conclusions, to the effect that, in the first place, the internal taxes referred to should be abolished by 31 December 1965, in conformity with the GATT Programme of Action, and, secondly, an exhaustive study should be undertaken with a view to defining the factors that determined high processing and marketing costs.

32. With regard to the customs duties and charges in force in the industrialized countries, consideration was given to their twofold effect as an additional brake upon the expansion of demand and as an element making for discrimination in favour of specific groups of developing countries. Particular stress was laid by the Meeting on the second point, as being one that might weaken the united front which all the under-developed countries should present at the United
Nations Conference on Trade and Development. In deeming it to be essential that the process of eliminating such duties and charges should begin before 31 December 1965, the Meeting bore in mind that the basic principle governing the abolition of discriminatory preferences of any type whatsoever must be that in the last analysis—in the context of the joint action suggested in relation to this and other aspects of the essential problem—it should redound to the general benefit of the developing countries as a whole. Another point made was that any temporary setbacks suffered by those developing countries which currently enjoyed the discriminatory preferences concerned could be liberally compensated by the expansion of demand that would derive from the elimination by the industrialized countries of the duties or taxes referred to above.

33. Similar consideration suggested the advisability of abolishing other discriminatory practices applied by various industrialized countries, such as the quotas accorded to their former dependent territories and the long-term contracts signed with them which are of a discriminatory character. There was also a consensus of opinion to the effect that the abolition of discriminations should be made extensive to processed goods based on raw materials of tropical origin, in order to promote the corresponding industrial activities in the producer countries themselves. In the same context, it was deemed indispensable that the industrialized countries should undertake to reduce their internal taxes and customs duties on those processed goods in whose case the value of the tropical raw material represented a high percentage of their final price.

34. The Meeting discussed the efficacy of commodity agreements as an instrument conducive to better market organization, to the regulation of volumes of supply and to the improvement and stabilization of prices for tropical products. In that context, it reaffirmed the principle that commodity agreements should be drawn up on such lines that they would effectively serve the basic end of encouraging the economic and social growth of exporter countries in process of development and promoting the establishment of more favourable terms of trade.

(b) Temperate-zone agricultural commodities

35. In the discussion of temperate-zone agricultural commodities, the attention of the Meeting was concentrated on the problems arising out of the protectionist measures applied by the industrialized countries, the difficulties deriving from the existence of agricultural surpluses, the deficiencies of current surplus disposal procedures, and matters relating to the organization of the markets for such products.

36. With regard to the first of the foregoing problems, it was the unanimous opinion of the Meeting that the agricultural policies applied by the developed countries had caused serious distortions in world production and trade patterns in respect of agricultural commodities, with deplorable consequences for primary exporter countries in process of development. By means of various systems of subsidies and price supports, at levels much higher than those prevailing on the world market, certain industrialized countries had intensively encouraged their own agricultural production, with the result that not only had the share of imports in their consumer demand diminished, but in addition they had increased their subsidized exports of agricultural commodities. Consequently, the export opportunities of the developing countries, which were unable for financial reasons to compete with such subsidized sales, had been seriously cramped. Furthermore, the prices of the commodities under discussion had been adversely affected by the stockpiling of surpluses as a result of the whole body of protectionist measures adopted by the developed countries, with the ensuing decline in the export earnings of countries at less advanced stages of development.

37. Accordingly, it was felt to be essential that the developed countries should take steps to eliminate the various forms of agricultural protection altogether, within a time limit not exceeding that established in the United Nations Development Decade proposals. As a first step towards the achievement of that objective, it was considered indispensable that the developed countries should forthwith assume a commitment to fix a ceiling for subsidies and other forms of protection in the aggregate, which should be markedly lower than the level currently prevailing. Moreover, as from 31 December 1965 the ceiling in question would have to be gradually lowered until protectionist measures had been totally abolished within the period stipulated.

38. A progressive programme for the reduction of the various forms of protection on the lines described would facilitate the gradual adjustment of the agricultural economies of the developed countries and the rehabilitation of their marginal farmers, who as things were could operate only under the aegis of protectionist policies.

39. For reasons similar to those adduced in the case of tropical products, it was expressly specified that quantitative restrictions, export subsidies and internal taxes on temperate-zone agricultural commodities should definitely be abolished before 31 December 1965, in conformity with the time-limit already agreed upon under the GATT Programme of Action.

40. The Meeting made a detailed study of the problem of the accumulation and disposal of agricultural surpluses. It was clear that the procedures adopted for the disposal of such surpluses, on special terms, had been prejudicial to the export opportunities of the Latin American countries habitually exporting the products concerned and even to their international trade. Although, in given circumstances, the purchase of the surpluses on favourable terms helped to solve emergency problems in non-self-sufficient countries, and in many instances benefited social groups whose purchasing power was very low, care would have to be taken to see that such assistance did not lose its temporary character, since the perpetuation of transactions of that type might have adverse repercussions on a country's own agricultural development possibilities, and might also afford a margin for the creation of artificial consumer habits which were
not consonant with the possibilities in question and might give rise to new import requirements.

41. While the consultation systems for which provision was made in the agreements in force had worked fairly well in certain cases, in general they were not thought to be a very satisfactory means of safeguarding the interests of exporter countries in process of development. It was therefore essential that the disposal of agricultural surpluses should be effected on a multilateral basis, and that a share in the process should be accorded not only to the countries interested in each programme, but also to the habitual supplier countries. The United Nations Conference on Trade and Development should establish a special mechanism to serve that purpose.

42. The Meeting also discussed some suggestions in connexion with the economic co-operation enjoyed by developing countries through the purchase of surpluses on specially favourable terms, to the effect that direct assistance in kind should be replaced by other types of aid. It was agreed that such proposals had certain merits, inasmuch as if the purchasing power of the developing countries were augmented and they were free to buy agricultural commodities in whatever markets suited them best, many of the distortions introduced by the existing surplus disposal systems would be remedied, and a higher degree of multilateralism would be imparted to such operations.

43. The view was expressed that if the agricultural commodity agreement entered into both by the developing and by the developed countries were to be more effective than in the past, they should be governed by certain general principles that could be adapted to the peculiar characteristics of the products concerned. One such principle was that prices for imported and domestically-produced commodities should be established at levels midway between those prevailing in the major areas of high-cost and of low-cost production. Besides increasing the income of the less developed countries, such a measure would help to reduce the incentives to marginal production in the developed economies. It was considered, however, that the foregoing principle would not be valid for all products in the category under discussion, but should be selectively applied, since some commodities—cotton, for instance—did not present the same types of problems as others. It was pointed out that in setting over-all limits on supply the present distorted situation of world agriculture should not be taken as the starting point for the developing countries.

(c) Mining products and fuels

44. In discussing the situation of mining products and fuels, the participants stressed the existence of serious problems which had been adversely affecting the economic development of many Latin American countries. Some of the sources of difficulty were much the same as in the case of agricultural commodities: for example, the import duties and charges and quantitative restrictions designed to protect the domestic production of developed countries, and the discriminations applied by these latter in favour of certain areas. In that context, it was pointed out that the preferential systems under which some developed countries conducted transactions with their associate territories implied, de facto, discrimination against other exporter countries and damage to the interest of the traditional suppliers of the commodities under consideration. Equally serious were the effects of the restrictions on imports of mining products and fuels applied by the industrialized countries through the quota system, as a means of protecting their domestic production.

45. As in the case of agricultural commodities, agreement was reached on the need for the developed countries to eliminate the protectionist and discriminatory measures that were prejudicial to the developing countries’ export trade in mining products and fuels, within a time limit corresponding to that established under the United Nations Development Decade programme. Such a course would not affect the total abolition of quantitative restrictions and internal taxes by 31 December 1965, in consonance with the GATT Programme of Action. Moreover, in view of the highly unfavourable repercussions of customs tariffs on trade in some mining products, it was considered that a programme for the gradual reduction of the tariffs concerned should be put into operation before that date.

46. A matter of particular concern to the Meeting was that of the policies pursued by the large foreign companies controlling major shares in the extraction, processing and marketing of the less developed countries’ mineral and fuel resources. It was remarked that the line taken by the enterprises in question might be incompatible with the interest of the economic and social development of the less advanced countries. *Inter alia,* the tendency of such companies to establish distilleries, refineries, blast furnaces, foundries and other plants for the primary processing of mining products and fuels outside the territory of the producer countries prevented developing economies from reaping the full benefit of their national resources. It was therefore felt that whenever the developing countries, in order to satisfy their aspirations in the direction of economic and social betterment, decided to take steps to modify the situation described, as well as that of natural resources, countermeasures should not be applied by the developed countries.

47. Great importance was attached to the developing countries’ need of access to sufficient external financing for their mineral resources and fuels to be more fully exploited. Consideration was also given to questions relating to commodity agreements on mining products, which, it was thought, should aim at price improvements that would increase the income of the less developed countries.

48. Another problem that engaged the attention of the Meeting related to the depressive influence exerted upon prices and the developing countries’ export trade by the disposal of raw material surpluses of mining origin accumulated in the developed countries. It was unanimously agreed that in order to eliminate the handicap thus created such sales should be regulated by means of internationally-established rules and principles.
C. Exports of Manufactures and Semi-Manufactures

49. With respect to the question of exports of manufactures and semi-manufactures, there was general agreement on the indispensable need for Latin America to expand the flow of these exports to the developed countries if the external sector was to cease being an obstacle to the attainment of a sustained minimum rate of economic growth. In the course of the discussions it was made clear that Latin America’s medium and long term requirements—which would have to be met on the basis of exports—could not be properly supplied by its traditional commodities, since they had little prospects of expanding in existing international markets, even if conditions turned out to be less disadvantageous than was anticipated.

50. The only way to increase exports of industrial goods to the developed countries would be through a considerable effort on the part of the developing countries both to expand their own consumption capacity and to strengthen their competitive position and establish adequate trade relations with the markets in question. Stress was laid on the fact that for such an effort to be possible the developed countries would have to throw open their markets to industrial products from the developing countries. This could be done only through the elimination of tariff barriers and of the quantitative and other kinds of restrictions and discriminatory measures applied to the trade flows in question.

51. The meeting discussed the need to abolish the barriers to imports of manufactured goods into the developed countries rather than to remove them on a selective basis, since general treatment was an essential part of any process intended to solve the problem besetting the developing countries in that field, because of the advantages it offered over concessions made on a selective basis.

52. It was pointed out that general preferences and exemptions were more effective both as regards the periods within which their effects should begin to be felt and their very absence of selectivity and automatic application. In contrast, a liberalization process based entirely on selective treatment would be exposed to the risk of delay and subject to the complexities of specific inter-country negotiations. Its coverage would necessarily be more limited than the former in respect of number of items, and it would hamper the possibilities of programming industrial development in the beneficiary countries on a sound and sufficiently broad basis as regards the volume and diversity of the opportunities presented. Furthermore, the concession of favourable treatment of a general nature was not incompatible with the subsequent application by the developed countries of preferences or additional exemptions for specific items from the developing countries.

53. During the debate, mention was made of two other conditions which should be observed by the concessions if they were fully to achieve their aims. In the first place, they should give unilateral preference to the developing countries without extending such treatment to trade between the industrialized countries—through the application of the most-favoured-nation clause—and without claiming reciprocal treatment by the beneficiary countries. Only thus would the concessions mean that the industrial exports of the developing countries had easier access to the more advanced world centres. Secondly, all the developed countries should agree to remove, in favour of all the developing countries, the tariff and other barriers currently applied in such centres. The reasons are twofold: (a) that type of co-operation for development purposes should embrace all the industrialized centres alike; and (b) if applied alike to all the developing countries, it would contribute to the establishment of an international trading system based on a new and more rational basis of multilateralism which would respond more closely to the development needs of the countries in question.

54. In order to analyse the specific problems that presented themselves at greater length, the Meeting made an individual examination of those that concerned manufactured products for final use and semi-manufactured products. The first category included all manufactures that had undergone complete transformation, whether they were consumer goods, capital goods or intermediate products, as well as parts and pieces of other products. Primary-processed or incomplete products were grouped together under the head of semi-manufactures.

55. In the case of the first, it was generally agreed that the preferences should be extended to all manufactures without exception. It was taken into consideration that a certain limit might have to be placed on such preferences, which, while assuring the less developed countries of a large-enough market, would take into account the need for a systematic reorganization of supply conditions in the industrialized countries. Approval was therefore extended to the suggestion made in the secretariat report that preferences should be applied to imports representing up to 5 per cent of the domestic consumption, for each product, of the relevant developed country, without prejudice to any extension to that limit that might be offered by a specific country to the developing countries. It was pointed out that the imports included in that quota would be duty-free, while those over and above the limit would be subject to the corresponding duties.

56. The experts were especially concerned about the situation in respect of the flows of trade in manufactured and semi-manufactured goods developed under the shelter of prior discriminatory preferences between certain developed and developing countries. Consequently it was considered that in calculating the imports covered by the 5 per cent limit, the volume of this trade should not be included. Without prejudice to the foregoing, it was agreed to maintain the general principle that such discriminatory preferences designed to promote the development of certain countries should be abolished, while recognizing that a reasonable period of time should be allowed for the attainment of that objective.

57. Semi-manufactured products were considered separately for two reasons. Firstly, it was believed that
these were the products that offered the best opportunities for the less developed countries to attain, within a relatively short period, a substantial expansion of their exports, both because of the technical characteristics of the industrial processes involved, and because in many cases those countries were already exporting the raw materials for such products. Secondly, the limit of 5 per cent of consumption would be too low for semi-manufactured products. Consequently the experts agreed that there should be total abolition of duties on imports of such products from the developing countries. However, in consideration of the fact that existing investments in this type of industry in the developed countries represented very large sums, it was thought that a reasonable period of adjustment would be needed, such as that established in the programme of the United Nations Development Decade, to permit those countries to make the internal adjustments required by the abolition of duties. Apart from that, it was believed that the process of liberalization should begin as soon as possible, and 31 December 1965 was indicated as the time-limit for its inception.

58. Both for finished manufactured goods and for semi-manufactured goods, preferences should be extended on equal terms to all the developing countries, with no distinction or classification that might limit the bargaining power of the under-developed world as a whole. However, it was recognized that there would have to be supplementary measures designed to strengthen the capacity of the relatively less developed countries to make effective use of such preferences, through the adoption of expanded programmes of international financial and technical assistance, without prejudice to the measures that might be considered necessary as the result of subsequent periodic evaluations.

59. Since provision had been made for negotiations between countries and groups of countries aimed at reducing tariffs on manufactured goods, to take place at the same time as the United Nations Conference on Trade and Development, the Meeting proposed certain general principles to ensure that the interests of the developing countries would be borne in mind during those negotiations (see Part III, Section C).

60. In the discussions of the experts it was recognized that provisions on tariff preferences must be supplemented by specific commitments that would ensure that the benefits of tariff preferences would not be neutralized by quantitative or other restrictions.

61. The Meeting referred to a question not included in the secretariat document, the proposal to establish, within the United Nations, a special agency for industrial development. The establishment of such an agency was justified by the need to accelerate industrial development in the developing countries, both as an end in itself, and also because the exporting of manufactured and semi-manufactured goods was the only alternative open to the developing countries of increasing the volume of their sales abroad.

62. The Meeting also considered that it would be desirable for the secretariat document to include comments on the international application of technical specifications, quality standards and public health requirements, since standardization in these fields would facilitate the exports of the developing countries.

D. THE TRADE IN INVISIBLE ITEMS

63. The Meeting agreed on the need to devote the maximum attention to questions relating to trade in invisible items, both in the Latin American countries' preparations to participate in the Conference on Trade and Development, and in the ECLA studies, because of the great importance of this question in relation to the balance of payments of the developing countries.

64. For the same reason, the government experts recommended that the ECLA secretariat should, if possible, expand the section on the trade on invisible items, which dealt in particular with maritime transport, in the document submitted to the Meeting.

65. It was also considered that the development of the tourist trade in the developing countries should be borne in mind, as a means of strengthening their balance of payments; that question was related to international co-operation, since without such help it would be difficult to find a satisfactory solution to the problems of financing transport services and hotel networks.

66. Some delegations pointed to the desirability that ECLA's studies should include examination of questions concerning outflows of foreign currency, in the form of profits, royalties and similar payments, in relation to the supply of foreign currency, since such payments often constituted a serious drain on that supply. In that connexion it was recalled that recent studies had shown that Latin America had become a net exporter of capital, since the repatriation of capital and interest and dividend payments since the end of the war exceeded the total amount of capital inflows under the heading of investment.

67. In relation to maritime transport services the experts considered that a strong and continuing effort must be made to remove the obstacles that the industrial countries often place in the way of policies of shipping promotion on the part of the developing countries, and in particular hold the view that the measures applied by the developing countries to promote their shipping were in the same category as some of those applied by the industrialized countries. The effort in question should extend to the field of the unilateral measures applied by the large countries to safeguard their own shipping. The nature of such measures not only makes it difficult for the developing countries to carry out their shipping development policies, but also limits their ability to choose between the services that best suit them for the transport of their commercial cargoes. For these and other reasons the Meeting reasserted the right of developing countries to arrange for the transport of their trade cargo by

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6 ST/ECCLA/CONF.13/L.2, Chapter V, Section D, The trade in invisibles.
the media that suit them best, as well as to completely unobstructed freedom of transit for such cargo.

68. With respect to specific means of shipping development, the experts considered that allocation of the transport of a portion of their commercial cargoes to their own ships would constitute an important stimulus to the growth of the national merchant navies of the developing countries.

69. The Meeting affirmed that the use of that stimulus and of others deemed necessary should be internationally recognized as a preference for the developing countries that should not involve exaction of reciprocal concessions. This would be a means of reducing the existing differences between the competitive ability of the shipping fleets of the large countries and that of the embryo fleets of the developing countries.

70. Some participants considered that the unilateral manner in which some shipping enterprises operated, either alone or when organized into shipping conferences (which in general establish transport conditions, transport rates and changes in such rates without hearing the views of the competent authorities in the countries concerned, or of the users), interfered with the normal workings of Latin America's foreign trade. Although all the countries of the region were not affected to the same extent, since different proportions of their foreign trade goods were transported under the shipping conference régime (general cargo) or by shipping not party to such conferences (bulk cargo), there was agreement as to the urgent need to change the existing state of affairs.

71. When the question of insurance and reinsurance of all types was raised, the delegations pointed to the urgent need for the developing countries to take an increasing part in this trade, through their domestic enterprises operating in that field, since it was currently one of the negative factors in the services account.

72. In that connexion there was reference to the experience of Latin American countries whose attempts to ensure that some of those transactions went to their own market led to complaints and other action by the large countries aimed at inducing a change in that policy.

73. Some delegations requested that their views on questions relating to the trade in invisible items should be recorded verbatim in the report of the Meeting.

74. The representative of Bolivia made the following statement:

"Without prejudice to the measures recommended by this Meeting with respect to maritime transport, there should be a recognition of the principle of free access to the sea as a rule of international law in favour of land-locked countries."

75. The representative of Brazil expressed the position of his country in the following words:

"With a view to the application of the general principles on the trade in invisible items adopted at the present Meeting, the Brazilian delegation considers that:

(a) The development and integration of the internal transport of the developing countries must be encouraged; in particular a system of harbours with facilities suited to the special requirements of the transport of the particular products of the region in which the ports are situated.

(b) It is essential that there should be international and national control of the activities of shipping companies, including those organized in the form of shipping conferences. This control should apply both to questions of transport of goods, and to those concerning the activities of the traditional carriers aimed at preventing the merchant fleets of the developing countries from participating in this trade. For this purpose the cargo manifests of the enterprises in question must be standardized, especially with respect to the basic weights and measures used in establishing freight rates.

(c) Once it has been recognized that the general principle should be established of differential treatment in favour of the less developed countries, without reciprocity, and covering everything related to transport, in order to establish conditions favourable to the expansion of the merchant fleets of the less developed countries, special attention should be given to the following measures:

(i) Legal and/or administrative provisions of an internal nature to encourage national enterprises; preference in the use of ports, allocation of cargo to national flag vessels, subsidies, etc.

(ii) Bilateral or multilateral agreements on allocation of cargo, at the governmental level, and/or formation of cargo or revenue pools, at the enterprise level.

(iii) Expansion of available resources through specific financing by international financial agencies to promote development programmes and keep merchant fleets up to date.

(d) With respect to industrial patents, the studies now being prepared by the United Nations should be accelerated. Similarly, for the developing countries it is a matter of urgency that three basic restrictions should be adopted as regards the use of foreign patents:

(i) There should be proof of the value of the patent in increasing the productivity of the enterprises that wish to use it.

(ii) There should be a limit on the transfers of royalties, which should be determined on the basis of the income obtained as a result of using the patent.

(iii) There should be control of the period of validity of the patent, in order to avoid payments that are not due, and to permit the developing countries to make full use of technical advances."

76. With respect to insurance, the delegation of Chile stated:

"As a means of facilitating world trade operations, the aim must be to standardize contractual clauses and general conditions in policies covering the risks of maritime, land and air transport. As this question raises legal problems that require special studies, and
as an international institution exists, the International Association of Insurance Law (AIDA) with headquarters in Rome and national committees in many countries, it would be appropriate to entrust such studies to this body.

"Furthermore, any well-grounded study should be based on comparison of the statistics on the movements shown in the balance of payments of each country as originating in insurance and reinsurance operations. The existing figures are not comparable, since different criteria are used in compiling them. It would be most useful to arrive at an international agreement on the presentation of such figures in a form that would reflect the quantitative and qualitative situation of each country as an importer or exporter of insurance. For this purpose the United Nations could be asked to assist by preparing basic tables that national institutions could use to collect the statistical information on the operations concerned.

"In addition projects should be prepared for establishing private regional reinsurance agencies organized by the developing countries, as a means of limiting the transfer of funds to countries with stronger economies in the form of balances from reinsurance operations. This proposal also involves the idea of establishing within a reasonable period, funds from the accumulated reserves that could be invested in regional development plans. At the same time the bodies concerned would be asked to include reciprocity clauses in reinsurance agreements to ensure that the outflow of foreign currency for reinsurance granted (exports) would be offset by earnings from reinsurance accepted (imports).

"The above proposals could be supplemented by persuading international reinsurance enterprises to channel the investments of firms from the developing countries towards those same countries, in order to assist their economic growth.

"As regards the insurance of export credits, there has been a great increase in the large countries in the organization of insurance systems to protect domestic exporters against risks deriving from insolvency of purchasers as well as from acts of a political nature or from calamities, especially for insuring short and medium term credits. Such a system, which is already operating successfully, and which would provide a useful supplement to expansion policies, should be studied with a view to adapting it to the characteristics and requirements of insurance in the developing nations. If this system were to be established, the international reinsurance markets would have to give reinsurance facilities that would allow the dispersion and international compensation required by such operations."

77. Lastly, the representative of Cuba stated his delegation's position as follows:

"The developed countries must abstain from taking any unilateral or multilateral measures in reprisal for decisions taken by the developing countries for reasons of economic development and/or national security, in relation to existing régimes governing the ownership of natural or artificial lines of communication between the oceans."

E. GEOGRAPHICAL DIVERSIFICATION OF TRADE

78. The analysis of foreign trade in primary commodities, industrial goods and invisible items made in the course of the Meeting, and summed up in paragraphs 28 to 77 of the present report, related chiefly to trade flows between the developing countries and the industrialized market economies. The view was expressed, however, that the complete solution of the problems arising in connexion with the external sector in the Latin American countries would also entail a substantial geographical diversification of their foreign trade. In that connexion, the focal point of the discussion was an examination of the possibilities that might be offered by the centrally-planned economies, as well as by other developing areas, special attention being devoted to the regional integration process in so far as it affected Latin America's trade with the rest of the world.

(a) Trade with the centrally-planned economies

79. The relevant data and background information presented by the ECLA secretariat testified to the existence of markets in the centrally-planned economies which, by virtue of their size and characteristics, might afford significant opportunities for the expansion of foreign trade of direct interest to the developing countries.

80. The experts were unanimously agreed as to the desirability of increasing trade between the Latin American countries and the centrally-planned economies. But in the light of a few Latin American countries' experience of trade with the economies in question—which was also considered in the course of the discussion—it was noted that there were several serious obstacles to be overcome before such possibilities could be exploited. They derived, on the one hand, from the differences in the organizational patterns of the market economies and of those that were centrally-planned, and, on the other, from the characteristics which the latter's foreign trade had exhibited up to that time.

81. The scale of imports, their evolution and the terms on which they were effected were determined in the countries concerned not by the operation of the price system as in the market economies, but by decisions on the part of their central economic organs. Thus, tariffs, traditional types of preferences and, in general, the usual instruments of trade policy could not serve as means of expanding and maintaining regular flows of goods between them and developing countries such as those of Latin America. In turn, the policy of import restriction pursued by the centrally-planned economies, the composition of their purchases from countries at relatively less advanced stages of development—in which traditional basic commodities had so far predominated—their persistence in basing their trade on bilateral payments agreements, and the non-transferability of the balances accumulated, had all constituted hindrances to the expansion of their foreign trade with the developing countries.

82. With reference to bilateral payments agreements, however, it was pointed out that they might sometimes augment the net payments capacity of
developing countries. In that context, the Cuban delegation stated that, in endorsing conclusions (1) and (2) on the topic under discussion, it wished to place on record the fact that the long-term bilateral agreements concluded by developing countries with the centrally-planned economies were calculated to encourage the former’s economic development and, consequently, the diversification of their exports. Similarly, it would not be easy for the centrally-planned economies to pay for their imports in convertible currencies, as long as the obstacles of every kind were placed in the way of trade with them by some of the industrialized countries continued to subsist. Moreover, the Cuban delegation pointed out that transferability of balances within COMECON was beginning to be put into effect.

83. In summing up its discussion of the foregoing subject in terms of conclusions, the Meeting bore in mind the need for the final solutions reached to be definitely consonant with the principle that under the new world trade order the industrialized centrally-planned economies should offer the developing countries advantages and preferences of equivalent effect to those the countries in question hoped to obtain from the developed market economies. In view of the different patterns to which the preferences granted by the centrally-planned economies would have to be adjusted, and the aim of opening up real export possibilities for the under-developed countries, it was deemed essential that the former should establish quantitative trade targets to be attained within specific periods, incorporating them in their long-term plans and crystallizing them in their short-term decisions concerning their foreign trade with the developing economies. In magnitude and composition the targets fixed should match the trade requirements of the developing countries, and, in the case of manufactured and semi-manufactured goods, they should be supplemented by appropriate systems of preference designed to encourage the expansion of such exports. Moreover, it was pointed out that the centrally-planned economies should provide guarantees against deterioration of the terms of trade, investment facilities, special credits, etc.

84. Mention was also made of the possibility of establishing a regional office to facilitate negotiations between the Latin American countries and the centrally-planned economies. While the idea was thought to be interesting, it was considered that to formulate a conclusion on the point would be premature.

(b) Promotion of trade among the developing countries

85. Although trade among developing countries in different regions of the world had so far been on a relatively small scale, the experts agreed that its promotion and expansion should constitute one of the important objectives of Latin America’s trade policy in the future. The developing countries would indubitably find it very helpful to establish specific systems of preferences expressly designed to serve that end. Obviously, one of the primary characteristics of such systems would have to be that the preferences were not made extensive to the more highly developed countries.

86. Again, the peculiar situation of the developing countries, determined, inter alia, by the need to adapt the composition of their foreign trade to an internal structure of production that was bound to be continually changing as a result of the dynamic effect of development itself, implied the formulation and application of preferences in accordance with suitable new patterns. That consideration, combined with the necessity of preventing trade relations among the developing countries from assuming a piecemeal character as the result of special treatments of the type described, and losing the multilateralism that should characterize them, induced the experts to recommend that such preferences should be established on the basis of decisions that the countries concerned adopted by common accord as to the principles and procedures best suited to encourage their reciprocal trade. Similarly, the study and solution of the problems in question should be assigned high priority in the activities of whatever institutional mechanisms might emanate from the United Nations Conference on Trade and Development, with due care to ensure that the pertinent regulations facilitated the necessary agreements between developing countries, not merely as exception to the existing most-favoured-nation clause, but as expressions of a new principle in international trade.

87. The Meeting suggested that, as part of the above-mentioned joint activities, special attention should be devoted to possible measures to eliminate those obstacles to trade among developing countries that derived from the lack of adequate means of transport and communication, and from the fact that little had been done to develop their reciprocal trade channels and banking and other ties.

88. The Cuban delegation said that apart from those mentioned, there were other types of obstacles and pressures—in particular, the economic blockade—which some developed countries applied to those in process of development, as in the specific case of its own country.

89. In discussing the procedures whereby trade should be promoted, the participants stressed the importance of problems stemming from the shortage of the means of payment commonly used in international transactions, which would militate against the desired expansion of trade, if the principles of convertibility and multilateralism were rigidly enforced.

90. Lastly, with a view to the removal of the obstacles that might be encountered in that direction, the experts emphasized the need for the preferences currently enjoyed by some industrialized countries in specific developing countries to be eliminated at the earliest possible date, and for the subsequent establishment of new preferences of the same kind to be avoided.

(c) Regional integration and Latin America’s foreign trade

91. In the context of regional integration, the experts indicated the progress made by the Latin
American countries in the gradual and progressive integration of their economies, through the Central American programme since 1952, and through that of the Latin American Free-Trade Association as from 1961. In the future, economic integration would necessarily constitute one of the most important means of stimulating steady economic growth in Latin America. The same possibilities for international economic co-operation were also opening up for other developing regions. It was therefore desirable that international measures should be adopted to promote integration processes which, with due regard to the peculiar characteristics of the developing countries, would be of real help in speeding up the growth of their economies, while at the same time increasing trade, both within regions in process of integration and between them and the rest of the world.

92. In the opinion of the participants, the measures in question should be adjusted to a framework of general rules and principles for international trade which, by their nature and flexibility would permit the untrammelled development of movements towards regional economic integration, as one of the key factors in the reconstruction of the world economy. In that connexion, it was noted that the integration of the developing countries, far from conducing to their economic isolation, would be reflected in their more active participation in the world economy, and in the growth of international trade. Recognition of that fact by the developed countries would forestall interventions on their part that might cramp the favourable influence of integration on the expansion of trade or adversely affect the implementation of the pertinent multilateral agreements.

93. Several delegations said that if Latin America’s attitude was to be fully consistent with the principles of equity in trade policy that it wanted the world to observe, it should apply them to the countries at relatively less advanced stages of development within the region itself, in the integration processes that were taking place in the continent. In that context, the delegations of Bolivia, Ecuador and Paraguay placed on record their keen satisfaction in associating themselves with the other participating delegations of Bolivia, Ecuador and Paraguay placed on record their keen satisfaction in associating themselves with the other participants in the conclusions of the Meeting, which reflected not only the legitimate aspirations of all the developing countries, and, in the experts’ view, it would be indispensable to promote the establishment of suitable mechanisms which, while serving the purposes indicated, would at the same time lessen or do away with the limitations that might derive from unfavourable conditions in the economic relations of countries in process of integration with the rest of the world.

95. The Meeting then discussed the implications for Latin America’s foreign trade of other tendencies towards changes in the traditional geographical distribution of trade and, specifically, the incipient repercussions of particular multi-national economic integration movements in which groups of industrialized countries were taking part. The main factors differentiating such movements from those organized by the developing countries, from the standpoint of their effects on world trade, were clearly defined, and general guiding principles were formulated for the activities of the United Nations Conference on Trade and Development.

F. FINANCING OF TRADE AND DEVELOPMENT

96. The Meeting considered that the problems of financing trade and development were of great importance because, while it was indeed true that Latin America’s economic growth would have to depend primarily on its internal effort, it was no less true that the stated objectives could be achieved more easily if external funds were available in sufficient quantity and on suitable terms. Although the new world trade order would, over the long term, help to reduce the decisive effect of external financing, greater external support would be required to help the developing countries avail themselves of the new opportunities offered by the new trade order in the form of more active trade currents. In any event, the chief purpose of external aid should be the economic development of the beneficiary countries.

97. The Meeting considered in detail the various aspects of the subject, particularly problems relating to development financing proper, compensation for the long-term deterioration of the terms of trade, financing of short-term fluctuations and financing of exports and imports.

98. With respect to development financing, it was pointed out that the present levels of external financial co-operation fell short of the needs of the developing countries as did also the United Nations proposal that the industrialized countries should contribute 1 per cent of their GNP to the developing countries and that multilateralism, in spite of the advantages it offered, had lost ground to bilateralism in external financing. Moreover, in view of the magnitude of the commitments assumed by many developing countries in respect of the servicing of their external debt, as compared with their foreign exchange earnings, the experts agreed on the need for a revision of the terms of borrowing so as to adjust them to the capacity for payment of the developing countries, since they should not exceed 15 per cent of the total foreign exchange earnings of the debtor country, when in actual fact they exceeded 40 per cent in some cases.

99. In the matter of long-term compensatory financing, it was stated during the Meeting that the
that view, those special formulae should include features in some countries and that, in such cases, deterioration of export prices had assumed chronic special financing formulae should be devised which a net transfer of funds from the countries benefiting not have to be refunded, and would essentially imply automatic granting of compensation, which would not have to be refunded, and would essentially imply a net transfer of funds from the countries benefiting from the drop in export prices to the countries which suffered a loss as a result of the price decline. It was emphasized that compensatory financing schemes should be geared to the long-term, since that was particularly important for many developing countries.

100. In connexion with short-term financing, the Meeting considered that the amount and terms of short-term financing made available to developing countries fell short of what was needed to offset the decline in their export earnings. The experts examined, in particular, the compensatory credit system put into operation by the International Monetary Fund since February 1963. They felt that while it constituted a definite step towards the solution of short-term financing problems, it needed radical modification if it was to fulfil its purpose more efficiently. Some delegations pointed out that the IMF system could not properly be called “compensatory” since it involved repayable loans and not a net transfer of funds.

101. The role of credit as an instrument for promoting exports from developing countries was dealt with during the discussions. It was pointed out that lack of adequate export financing might make it difficult or even impossible for the developing countries to take advantage of the trade policy measures instituted in the industrialized countries to promote their exports. The same considerations were raised in connexion with the insurance systems which covered the risks to which the exports of the developing countries were exposed, and it was felt that here too specific action was needed to strengthen the competitive capacity of the developing countries. In connexion with that basic objective, other factors were also considered, such as the need for the capital exporting countries to contribute to the financing of the investment programmes of the less developed countries on terms that would allow it to be used, under certain conditions, for the purchase of manufactured goods from other developing countries. With the same end in view, the experts felt that policies should be adopted designed to standardize the use of suppliers’ credit in the short and medium-term financing of exports, in order that the terms of payment should not constitute determinants of the direction of international trade flows.

102. The delegation of Brazil, supported by others, suggested that part of the funds released through the reduction of military expenditure already undertaken by the Great Powers and which, it was hoped, would be intensified as the disarmament process progressed, should be channeled into the economic development of the non-industrialized countries, under the aegis of the United Nations, as had already been proposed in 1953 by the United Nations General Assembly in its resolution 724 (VIII). Moreover, the subject should be discussed, if possible, at the CECLA meeting or any other suitable forum with a view to reaching a concerted Latin American position to be defended at the Geneva conference.

103. In that connexion, the delegation of Cuba, referring to the conclusions on the subject, expressed a number of reservations. With respect to the first conclusion, it stated that since it did not provide that the funds released by disarmament should be used for the financing of development, and that the Latin American countries as a whole had agreed to discuss the subject at CECLA or some other suitable forum, the Cuban delegation maintained that the forum chosen should be one which was open to all the Latin American countries. Moreover, as it would not attend the meeting of CECLA mentioned in conclusion 5, it could not subscribe to the proposal in the last part of the conclusion. It was unable to support conclusion 6 inasmuch as it referred to the recommendations of an organization to which Cuba did not belong, nor could it endorse conclusion 8 which contained a reference to the IDB. The Cuban delegation further requested that the following statement be reproduced verbatim:

“It must be pointed out that the laying down of the principles which will govern the administration of the funds for compensatory financing and for the promotion of economic development referred to in the conclusions of this report, is essential, as is also the consideration, from the standpoint of the principle of universality, of the question of composition of the administrative staff of these organizations. The Cuban delegation believes, moreover, that the solution of the problems deriving from deterioration of the terms of trade and relating to economic development will largely depend upon the thoroughness and decision with which the structural problems of national economies are tackled and solved.”

104. The delegation of Brazil, supported by Cuba, stated that it had proposed the deletion of the word “maximum” in the first sentence of conclusion 1, in order to prevent the external financing transactions of the developing countries from being hampered by the interpretation that might be placed upon the concept of “maximum domestic savings effort” by certain applicant countries, particularly those with a very low rate of domestic investment because of their condition of under-development.

105. The representative of Brazil requested the inclusion in the report of the following statement: “Since international financial organizations are not simply institutions designed to apply the savings of developed countries in such a way as to meet the standards of banking, their voting system should be reorganized so as to express the common interest of developed and developing countries in the task of financing trade and international development. Along these lines, the system now in force in the organizations which supervise performance of international commodity agreements, whereby exporter and importer groups have the same number of votes, is insufficient, and it is recommended that the proportion of votes of each group should be based on the volume of trade in the commodities concerned.”

See Part III, section F, below.
of votes, should be considered as a possible model to be applied, mutatis mutandis, to the case of capital exporting and importing countries."

He wished to submit to the consideration of CECLA and possibly to the Conference on Trade and Development the need, deriving from the new exigencies of development and international trade, of a new financial organization under the aegis of the United Nations and/or a recasting of international financial organizations by providing them with a new structure. The new structure should take into account the need for adequate participation of developing countries in the decision-making process and the desirability of making these organizations truly universal.

G THE INSTITUTIONAL STRUCTURE OF WORLD TRADE

106. Having considered the trade in goods and services, the diversification thereof and the financing of trade and development, the experts reached the conclusion that, in order to solve the problems of the developing countries in all these fields, and to do so harmoniously and with due attention to their interests, a new technically and legally qualified organization would have to be established. The new organization would be responsible, on a permanent basis, for maintaining satisfactory order in world trade and for providing an impetus to its expansion as a basic instrument for the economic growth of the developing countries. To that end, there would have to be established, within the United Nations system, a special organization with a membership open to all countries and with sufficient authority to guarantee the fulfilment of the decisions and agreements of the United Nations Conference on Trade and Development, and to provide in the future a vigorous and lasting impetus to every aspect of international trade, considered as such and chiefly in relation to the needs of economic growth of the developing countries.

107. The experts believed that the absence of such an institution or any limitations placed upon it in terms of size of membership, scope of action, availability of funds or authority to give practical effect to its decisions, would mean that the agreements reached at the Conference could only be implemented imperfectly, if at all. Moreover, it was pointed out at the Meeting that institutions of limited authority could not, by reason of their complexity, undertake successfully the study and solution of the problems that might arise in the future. It was emphasized nevertheless that no attempt was being made to prejudge any of the proposals that might be submitted at the Conference regarding the structure of an international organization which, based on the same principles and seeking the same objectives, would fully meet the needs of the developing countries. It was recognized that at the moment there was no organization doing that work.

108. The delegations pointed out that the establishment of that international organization might provide a permanent solution to the institutional problem raised. They recognized, however, that in view of the urgent need to overcome some of the chief obstacles to international trade, immediate-action bodies of a provisional nature would have to be set up until such time as the permanent organization was established. Those bodies would have to be agreed to and set up during the United Nations Conference on Trade and Development, with the latter as their central organ. To that end, the Conference should establish a standing committee and several ad hoc committees, provided with a sufficient budget of their own, which would work with the help of a qualified secretariat, also independent and permanent, in close co-operation with the Economic and Social Council and with the regional economic commissions of the United Nations. Those committees would be responsible for giving speedy and satisfactory effect to the decisions of the Conference. They would also have to make a thorough study of international trade problems in relation to development, evaluate the need for organization, achieve the gradual and smooth integration of existing institutions, and prepare detailed projects for the proposed permanent organization; all that to be done in the light of the basic guidelines adopted at the Conference. The results of those activities would be submitted to the consideration of the Conference at a new meeting to be held within a year or two.

109. With regard to the ad hoc committees; the experts suggested that three might be established initially: a committee concerned with the relations between the developed and developing countries, which would speedily transform the Conference's decisions and recommendations into a special agreement that would govern the trade relations between the two groups of countries; a committee concerned with relations between the State-trading countries and the market-economy countries; and a committee that would function in close contact with the United Nations regional economic commissions to strengthen the links and solidarity between the developing countries as a whole, particularly those of different continents.

110. Lastly, it was pointed out that during the period of transition prior to the establishment of the permanent organization, GATT, as negotiating body between its present Contracting Parties, would continue to concern itself with promoting world trade within its present sphere of competence, having regard to the general guidelines approved by the Conference.

H. OVER-ALL EVALUATION

111. The closing meeting afforded an occasion for an over-all evaluation of the results and possible future implications of the Meeting.

112. On behalf of the delegations present, the representative of Argentina summed up the conclusions reached, which defined the position of the Latin American countries more precisely and indicated points on which unanimous agreement existed. The restrictive and discriminatory import policy of the developed countries and the aggressiveness of their export policy had caused a deterioration in Latin America's foreign trade. The new rules and principles for international trade that had been discussed at the Meeting were calculated to open up new avenues for Latin America's primary commodities,
to promote the industrialization of the countries of the region and to enable it to take a share in trade in invisibles, all of which were objectives envisaged for the United Nations Development Decade. With such ends in view, it would be necessary to establish trade flows that would accelerate the economic progress of Latin America, and to modify or eliminate the bilateralism that had so far prevailed in the case of trade with the centrally-planned economies, which would be needed to accord the region the same sort of treatment as it hoped to obtain from the other industrialized countries.

113. Stress had been laid in the discussion on the need to agree upon preferential regulations in favour of developing countries, as well as to solve the problems relating to communications, transport and banking connections that hampered their trade. A warning had also been given against the danger of a recrudescence of autarkical policies, and of discriminations that favoured some under-developed countries to the detriment of others. The experts had reached unanimous agreement on the subject of financing, and had advocated the contribution of international funds and an internal savings effort as means of reducing the gap between income levels in the under-developed countries and in the industrialized economies. In the course of the proceedings, attention had been drawn to the need for a new world agency under the United Nations system to study international trade and ensure the implementation of the decisions adopted at the United Nations Conference on Trade and Development.

114. The Executive Secretary of ECLA pointed out that Latin America had made a great stride forward in reaching a consensus of opinion at the Meeting of Experts as to the concerted position it was to adopt at the United Nations Conference on Trade and Development, but it was incumbent upon the Governments to maintain that united front in subsequent foreign trade negotiations with the rest of the world.

115. The conclusions reached at Brasilia undoubtedly provided a basis for negotiations with the other underdeveloped countries and with the industrialized economies, but the significance of the Meeting of Experts was even more vital and far-reaching, since it would have repercussions of a very special kind on the success of the economic integration movements currently in progress in Latin America.

116. The technical conclusions emanating from the Meeting of Brasilia, in conjunction with other instruments already in force, such as ALALC, for example, would contribute to the realization of one of Latin America's most cherished ideals: the establishment of a common trade policy. And another step had been taken along the road to that ideal, inasmuch as the region's efforts to attain it had been unified or at least co-ordinated. That was an achievement transcending the bounds of the Conference at Geneva.

117. In closing the proceedings of the Meeting, the Chairman stressed the complexity of a task which entailed not only the indication of practical solutions for the problem represented by the division of the peoples into an increasingly affluent minority and a majority whose relative situation was steadily deteriorating, but also, at the same time, an endeavour to secure unified action on the part of a large family of nations.

118. International trade had been the instrument of a regressive distribution of income, to the detriment of those countries that were most in need of such trade in order to press on towards economic development, inasmuch as, on the one hand, the prices of their exports had declined, and, on the other, demand for them had contracted. The differences in the income-elasticity of demand for primary products and for manufactured goods, together with the expansion of the developing countries' imports, combined with the foregoing situation to account for the negative effects of international trade on the economy of the Latin American countries.

119. The world had at last realized that it was essential to put a stop to such trends, as the convening of the United Nations Conference on Trade and Development showed. It was no longer a matter of striving for concessions or favours that the wealthier nations might grant to the less privileged countries, but of altering out-dated regulations which, with the passage of time, would become as great a burden to those they were intended to benefit as to those they victimized.

120. Latin America represented an important branch of the large family of economically underprivileged nations, and was perhaps the one that had suffered most through the mode of operation of international trade. Moreover, it constituted the most homogeneous of the groups of under-developed countries. Hence the exceptional responsibility incumbent upon it during the phase in progress, which offered new ways of approach to the effort to rebuild the foundations of the world economy.

121. The Meeting marked the occasion of the first attempt to define the bases of a common economic policy for Latin America, to be defended in a gathering at the world level. Perhaps to the surprise of some, but to the satisfaction of all, it had been shown that the limits within which Latin America could act in unison were sufficiently wide to embrace almost everything that was of concern to the region. In particular, the Latin American countries were agreed upon the necessity of striking at the roots of the problem, by altering the "rules of the game", currently based upon a fallacious equalitarianism which ignored the qualitative differences existing between the industrialized economies and the economic structure of the under-developed countries. The time had come for the reciprocity grounded upon that false equalitarianism to be superseded by a treatment capable of counteracting the effects of those deep-lying forces which made for the aggravation of the disparities in question.

122. On the basis of that general principle—the application of discriminatory treatment in favour of the under-developed countries—a new system would have to be built up, designed to promote the development of the world economy on the one hand, and, on the other, to close the existing gap between the richer
peoples and the poorer. Such objectives could only be attained under a new system of international division of labour. To that end, it would be essential to create the requisite institutional conditions for an expansion of all trade flows, irrespective of prevailing levels of development and political systems. Thus, in a closer union of the peoples would be found the solution to the vast problems created by the international inter-dependence that modern technique itself made inevitable in the contemporary world.

I. OTHER BUSINESS

123. The discussions of the experts were facilitated by the background information, analyses and conclusions contained in the ECLA secretariat document entitled Latin America and the United Nations Conference on Trade and Development (ST/ECLA/CONF. 13/L.2), as well as by the secretariat’s technical co-operation during the Meeting.

124. In view of the steps thus taken by the secretariat to comply with the requests formulated by the States members of the Commission at the tenth session of ECLA, and of the contributions that it had been making for many years to the understanding and solution of the Latin American countries’ foreign trade and development problems, the Meeting of Experts decided to incorporate in the set of conclusions reported in Part III a recommendation to the effect that the ECLA secretariat should continue its technical studies designed to facilitate the work of the Latin American delegations at the United Nations Conference on Trade and Development, and that after the said Conference it should convene a meeting of the ECLA Trade Committee to evaluate the results achieved and consider the establishment of a permanent system of consultations on trade and development.

III. CONCLUSIONS APPROVED AT THE MEETING

125. The Meeting of Latin American Government Experts on Trade Policy approved the following conclusions:

A. GENERAL PRINCIPLES

1. The United Nations Conference on Trade and Development should attempt, within the framework of General Assembly resolution 1785 (XVII), to establish a new structure of international trade, as an essential condition for ensuring the more rapid, orderly and steady growth of the developing countries. To this end the Conference should:

   (i) Formulate the principles and operating rules that should govern world trade with the essential aim of transforming it into an effective means of promoting the economic development of the developing countries.

   (ii) Establish—under the aegis of the United Nations—procedures and institutional machinery suitable for ensuring that the Conference’s decisions are carried out, and, in particular, that the trade problems of the developing countries are the subject of systematic, detailed and continuing consideration.

   (iii) Adopt specific measures, in line with the aims referred to in sub-paragraphs (i) and (ii) above, to help bring about an immediate increase in the external earnings of the developing countries.

2. The trade requirements of the developing countries that are to be served both by the new structure of world trade and by immediate measures taken for this purpose are those which, if met, will promote the attainment and maintenance of growth rates sufficient to ensure for the developing countries a substantial reduction in the gap that separates their income levels from those of the developed countries, with a view to closing this gap.

3. The new structure of world trade must be based on the need for general, non-discriminatory preferential treatment in favour of all the developing countries. This treatment involves establishing the following basic principles, among others:

   (i) Reciprocal measures should not be required of the developing countries in respect of concessions or preferences granted by the developed countries.

   (ii) The developed countries should guarantee the developing countries access to their markets on a non-discriminatory basis. Existing forms of discriminatory and preferential access that are considered indispensable in order to maintain the export earnings of certain developing countries should be replaced by compensatory financial measures.

   (iii) The developed countries may grant preferences to the developing countries without granting them to other developed countries.

   (iv) The developing countries may grant preferences to each other without granting them to the developed countries. These preferences shall be granted without prejudice to the rights and obligations deriving from regional associations among developing countries.

   (v) In view of the different growth rates obtaining in the developing countries, provision should be made to a differential treatment in line with the particular characteristics of the countries at a relatively less advanced stage of economic development. This treatment should be based on the granting to such countries of special privileges that do not constitute a trade discrimination between developing countries.

4. The new structure of international trade should ensure the general expansion of world trade and promote its integration through the establishment of machinery and rules suitable for trade among countries at the same stage of development; at different stages of development; and with different economic systems. The new rules and measures intended to serve the trade requirements of the developing countries should apply equally to all the developed countries with market economies, and, in an equivalent form, to all the industrial countries with centrally-planned economies.

5. If the trade requirements of the developing countries are to be fully satisfied, international financial policies must be in line with trade policies conducive to the new structure of international trade, and the competent financial bodies must co-ordinate
their activities with those of the bodies concerned with trade.

6. In view of the urgency of the problems confronting the developing countries and the insufficiency of their external earnings, piecemeal measures cannot be effective. Consequently the measures set forth below, relating to various types of specific products and to other questions, must be regarded as components of a single integrated policy on world trade.

B. PRIMARY COMMODITIES TRADITIONALLY EXPORTED

1. The developed countries should abstain from taking measures which, directly or indirectly, constitute obstacles or are in the nature of reprisals against measures adopted by the Governments of the developing countries, by reason of their economic and social development requirements, with a view to regulating the systems of mining, processing and marketing of their natural resources, including measures involving changes in the system of ownership.

2. The developing countries should share increasingly in the benefits of technological progress, as a means of promoting their economic development; however, when their traditional trade flows are disturbed by the production of synthetics as substitutes for commodities, the developed countries should take steps to offset these effects by co-operating with the developing countries in the search for appropriate solutions.

   (a) Tropical commodities

   1. The high internal taxes that the industrial countries normally apply to the consumption of tropical commodities severely limit expansion of demand, and deprive the developing countries of valuable opportunities to increase their exports. Consequently the aim should be to abolish these taxes no later than 31 December 1965.

   2. The customs duties that the industrial countries apply to imports of such tropical commodities should also be abolished by 31 December 1965. Similarly, all forms of discrimination against exports of tropical commodities from Latin America should also be abolished by the same date. The abolition of charges and discriminatory measures should also apply to products manufactured from basic tropical materials.

   3. The customs duties and internal taxes imposed by industrial countries on final products containing a high percentage of tropical raw materials exported by the developing countries should be reduced to a level that will not hamper the expansion of the industrial activity concerned in the country of origin, and will contribute to the expansion of internal demand in the importing country.

   4. As soon as possible a detailed study by experts should be undertaken, on the reasons for the high costs in some industrial countries of processing and marketing certain tropical products exported by Latin America, with a view to suggesting measures to avoid mark-ups considered as excessive.

   5. It is essential that the developed countries support the negotiation of appropriate agreements on tropical products, always provided that they have the basic aim of promoting the development of the developing exporter countries and establishing more favourable terms of trade.

   (b) Temperate-zone agricultural commodities

1. The developed countries should undertake to modify their agricultural policies which, through such action as the price mechanism, different types of import restrictions and discriminatory treatment of all kinds, are the cause of distortions in the present structure of world production and trade, such modifications to be effected by means of the abolition of protective measures in favour of their agricultural production.

   For this purpose, the first stage should be the setting of an over-all ceiling on the different forms of protection in order to bring about an improvement in the external purchasing power of the developing countries and thereby enable them to achieve their economic and social growth targets. The ceiling should be enforced before 31 December 1965, after which time the developed countries should carry out a programme of progressive reductions in the different forms of protection with a view to their complete elimination within the United Nations Development Decade.

   In addition, quantitative restrictions and internal taxes applied to the trade of the developing countries should be abolished before 31 December 1965.

   Similarly, subsidies for exports of agricultural commodities should be abolished by the same date.

   2. The disposing of agricultural surpluses on special terms should not be effected at the expense of the export opportunities and intra-regional trade of the developing countries or of the agricultural development prospects of the countries receiving such surpluses.

   International co-operation should, in fact, be provided in such a way as to increase the purchasing power of those countries so that they can buy their agricultural supplies where it best suits them. This will give the disposal of surpluses a more multilateral character which, in conjunction with the elimination of subsidies, will contribute to a better distribution of world agricultural production.

   So long as surpluses are available for economic aid of this kind, their disposal should be undertaken on a multilateral basis with the participation of the countries concerned in each programme as well as the traditional supplier countries, through a special mechanism which should be set up by the United Nations Conference on Trade and Development.

   3. In the case of commodities with low income-elasticity of demand of which there is an excess supply, commodity agreements could, without prejudice to the foregoing recommendations, contribute to improving world trading conditions. To be effective, such agreements should conform to the following general guiding principles, with due regard for the type of product concerned:

   (1) In some cases the price paid for imported products and those produced domestically should be fixed at an appropriate level between the prices
prevailing in the main high-cost and low-cost production areas.

(ii) In establishing prices, account must be taken of the inter-relationship of the different products and the risks of substitution. In some cases this would involve the conclusion of multi-commodity agreements.

(iii) Any limitations imposed on supplies should not be based on the assumption that the developing countries are prepared to accept the present distorted structure of world agriculture, but should ensure that these countries achieve a volume of exports that is sufficient to meet their own development needs.

(iv) Any increase in consumption that is achieved in future should primarily benefit the non-subsidized producers, with a view to drawing progressively closer to what may be regarded as a rational structure for world production.

(c) Mineral ores and fuels

1. The industrialized countries should gradually abolish the measures of protection and discrimination of all kinds applied to basic commodities of mineral origin and fuels from the developing countries so that these may compete on an equal footing with each other and with exports from and local production in the industrialized countries.

These objectives should be achieved within the United Nations Development Decade. In any case, gradual liberalization should be initiated before 31 December 1965, by which date customs duties should have begun to be lowered and quantitative restrictions and internal charges imposed on such products should have been abolished.

2. The foregoing commitment should be extended to intermediate products of mineral origin in order to encourage a higher degree of processing in the developing countries, in order to have begun to be lowered and quantitative restrictions and internal charges imposed on such products should have been abolished.

3. The developed countries should abstain from taking measures which, directly or indirectly, constitute obstacles or are in the nature of reprisals against measures adopted by the Governments of the developing countries, by reason of their economic and social development and national security requirements, with a view to regulating the systems of mining, processing and marketing of their fuels and minerals including measures involving changes in the system of ownership.

4. The Governments of the developed countries and international financing organizations should support the concession of medium and long-term loans to domestic enterprises in developing countries for the prospecting, mining, processing, and/or marketing of their own fuel and mineral resources.

5. The support of the developed countries is essential to the conclusion of suitable agreements on this type of commodity, provided always that such agreements are necessary to raise prices or to maintain them at a higher level for the purpose of increasing to the maximum the foreign exchange earnings of the developing countries.

6. Supplies of mineral ores and metals, including those deriving from strategic reserves stockpiled in the developed countries, should be disposed of in accordance with international regulations designed to ensure that there is no dumping, that the prices of the commodities in question are not reduced and that world trade is not distorted to the detriment of exports from the developing countries.

C. Exports of manufactures and semi-manufactures

1. The developed countries should accord preferential treatment, on a non-reciprocal basis, to imports of manufactured and semi-manufactured products from the developing countries. The preferences should be granted by all the developed countries in favour of all the developing countries, in accordance with the following provisions:

(a) Provisions applicable to finished manufactured products

(i) The industrialized countries should forthwith grant entry, free of duties and other charges of equivalent effect, to imports of all finished manufactured products from the developing countries, whenever such imports represent, for each product, not more than 5 per cent of the domestic consumption of the importing country concerned. Moreover, any industrialized country may grant similar preferences to imports exceeding the above-mentioned limit without extending them to other industrialized countries, provided that they apply them to imports from all the developing countries.

(ii) The duty-free import quotas referred to in conclusion (i) will not include imports from developing countries which already enjoy previously established preferences, without prejudice to the provisions laid down in point 7.

(iii) Imports from the developing countries that exceed the limits indicated in conclusion (i) shall be subject to the relevant tariffs and to the application, when appropriate, of the most-favoured-nation clause.

(b) Provisions applicable to semi-manufactured products

The developed countries should, during the period provided for in the Development Decade, have gradually reduced and abolished the tariffs on imports of semi-manufactured products from the developing countries. This process of gradual liberalization should be initiated before 31 December 1965.

2. In giving effect to the foregoing conclusions, the developed countries should determine the measures required to adapt their production pattern so as to increase the purchase of semi-manufactured and manufactured products from the developing countries, thereby co-ordinating their trade in manufactured goods with the countries concerned.

3. To ensure that the benefits of the preferences referred to in point 1 actually reach those developing countries which are at a relatively less advanced stage
of development, these preferences will have to be supplemented by:

(i) The formulation of special programmes of international technical and financial assistance, to enable such countries to make effective use of the preferential treatment granted to them and to convert it into a flow of industrial exports to the developed countries.

In the case of the developing countries that are in the process of economic integration, these supplementary programmes should be preferably carried out, through the regional institutions they have established.

(ii) The relevant organs of the world trade organization that may be created by the Conference must periodically evaluate the extent to which such preferences are proving to be of benefit to the majority of the less developed countries; if necessary, they should suggest further suitable ways of extending such benefits to those countries which, because of their relatively less advanced stage of development, have not succeeded in availing themselves fully of the opportunities offered by the preferential treatment they receive.

4. In all the negotiations providing for tariff reductions in respect of manufactured products that may be conducted between countries or groups of countries prior to the entry into force of the agreements of the United Nations Conference on Trade and Development, the following principles should be borne in mind:

(i) Products of particular importance for the export trade of the developing countries should in no case be included among the exceptions that may be made;

(ii) Full advantage should be taken of the system of linear negotiations to introduce, concurrently with any tariff reductions for finished products, at least equivalent tariff reductions for items at an earlier stage of processing;

(iii) No restrictions of any kind should be applied that might tend to limit the benefits to be expected from the tariff reductions in question.

5. The adoption by the developed countries of measures favourable to the developing countries should not be conditional upon reciprocal concessions by the latter.

6. The developed countries should eliminate quantitative restrictions and charges other than existing customs duties in respect of semi-manufactured products for final use or consumption, and should undertake not to establish new barriers that would lessen the efficacy of the concessions accorded. Similarly, they should eliminate any other discriminatory measure hampering or preventing the free access of manufactured products from developing countries to the markets of the industrialized countries.

7. Steps should be taken forthwith to eliminate the preferences granted to some of the under-developed countries by certain developed countries, provided that these preferences have not already led to the creation of trade flows. When such trade flows have been established, the developed countries should limit the application of preferences to the volume of trade attained in the last few years, without prejudice to the gradual reduction and eventual elimination of such preferences.

8. As regards other obstacles to the export of manufactured and semi-manufactured products by the developing countries, suitable mechanisms should be established to ensure that trade restrictions originating in trusts, cartels and patents do not defeat the aims of the different measures to promote the export of industrial products by the developing countries.

9. Having regard to the need for expediting the industrial growth of the developing countries so as to enable them to diversify their foreign trade in the shortest possible time by exporting manufactured and semi-manufactured products, the developing and the industrialized countries should make every effort to create within the United Nations a specialized agency for industrial development.

D. TRADE IN INVISIBLE ITEMS

1. Developing countries should have the right to arrange for the maritime transport of their trade cargo by the media that suit them best, as well as to completely unobstructed freedom of transit for such cargo.

2. It should be recognized that the expansion of the national or regional merchant fleets of developing countries is a factor of importance for their economic growth.

3. The principle of preferential treatment for developing countries, on a non-reciprocity basis, in all matters relating to transport, should be established.

4. A system should be created to ensure the effective participation of the Governments of developing countries in decisions affecting maritime transport conditions and prices.

5. Regular shipping services among developing countries, as well as between them and potential purchasing centres, should be instituted.

6. Developing countries should have an increasing share in international insurance and reinsurance transactions, in the interests of their balance of payments.

7. Regional reinsurance institutions should be set up by the countries in question.

8. Standard clauses should be used in transport insurance policies, and insurance statistics in general should be standardized.

E. GEOGRAPHICAL DIVERSIFICATION OF TRADE

(a) Trade with the centrally-planned economies

1. The centrally-planned economies should undertake to establish quantitative targets for trade with the developing countries, and include them in their long term plans and short-term policy decisions concerning foreign trade. These targets should be compatible with the trade requirements of the under-developed countries, and will form part of the new framework envisaged for the expansion of international trade, conducing to a more rational distribution of world production and trade in respect
of certain products. In the case of manufactures and semi-manufactures where special procedures to encourage exports from the developing countries to the industrialized economies are required, the establishment of these quantitative targets should be accompanied by preferential systems in favour of the developing countries.

In every case, the developed centrally-planned economies should grant the developing countries access to their markets, financing arrangements and other opportunities on terms not less favourable than those the developing countries are seeking to obtain from the industrialized market economies, as one of the objectives of the United Nations Conference on Trade and Development.

2. The countries with centrally-planned economies should endeavour to conduct their operations in convertible currencies and on non-discriminatory bases, and to expedite, in the immediate future, the adoption of measures whereby balances deriving from trade operations with the under-developed countries can be made transferable from one socialist country to another.

(b) Promotion of trade among the developing countries

1. If real advantage is to be taken of the developing countries' reciprocal trade potential, preferential rules and principles specially designed to serve this end must be adopted. Developing countries should be free to grant one another concessions that need not be extended to the industrialized countries.

2. Before these preferential regulations are formulated in specific terms, the developing countries, in order to forestall difficulties of various kinds that might be caused by the indiscriminate extension of special preferences, should make an over-all study of the principles and procedures that might prove most efficacious in encouraging their reciprocal trade; special attention should be given to this subject by any relevant institutional mechanisms emanating from the United Nations Conference on Trade and Development, as part of the reconstruction of world trade that should be its ultimate aim.

3. The preferences accorded to certain developed economies by specific developing countries should be abolished at the earliest possible date, and at the same time the establishment of new preferences of this kind should be prevented.

4. With international co-operation, an attempt should be made to examine and eliminate the problem and practices that militate against the trade of the developing countries, such as difficulties of communication and transport between areas in process of development, lack of trade, banking and other mechanisms or ties, etc.

5. Special consideration should be devoted to illiquidity problems, which particularly affect the developing countries, and would hamper their reciprocal trade if principles of unconditional multilateralism were applied.

(c) Regional integration and Latin America's foreign trade

1. The regional economic integration of the less developed countries should be promoted, with due regard for the special features of the various countries concerned, as an effective way of accelerating their economic development and expanding their intra-regional or inter-regional trade.

2. Care should be taken to see that, in the remodelling of the instruments under which world trade is conducted, priority is assigned and sufficient flexibility imparted to the regulations and procedures required for the implementation or consolidation of the economic integration processes of the developing countries.

3. Mechanisms should be promoted whereby payments can be facilitated within integrated regional groupings of less-developed economies, and their intra and inter-regional trade can be liberally financed.

4. Every effort should be made to ensure that the scope and effects of the economic integration of developing countries are fully understood, in order to prevent certain forms of intervention on the part of the industrialized countries which might reduce or offset the expansion of inter-regional trade resulting from integration processes, or might affect the implementation of the policies concerned.

F. Financing of trade and development

1. The industrialized countries must recognize their responsibility in respect of helping to provide the international funds which, in combination with the maximum domestic savings effort that the less developed countries can reasonably be expected to make, will enable the latter to achieve a rate of growth that will reduce the disparity between their income levels and those of the industrialized countries. Their minimum contribution should be sufficient to bridge the gap between estimated import requirements of the developing countries and prospects for the expansion of their capacity to import; a fair distribution of effort implies that all the industrialized countries should contribute an adequate proportion of their respective gross domestic products.

2. Multilateralism should, as far as possible, be the guiding principle followed in external financing arrangements with respect to amounts, mode of payment and procedures, which should be adjusted to development programmes (sectoral, national or regional) with due allowance for the special development requirements of the borrower countries and for their present levels and differing rates of economic development.

Consequently, external aid should not be channelled entirely towards the financing of specific projects, nor should it be contingent upon purchases by the borrower country from the country providing assistance, Provision should also be made for the possibility of partly or totally financing the local cost of the specific project or development programme for which funds are needed.

3. In establishing terms for the servicing of external financing, account should be taken of the magnitude of the commitments already assumed by the developing countries in relation to their accrued external debt, so that the amount of resources they
have to earmark for meeting their total obligations does not exceed a reasonable proportion of their respective capacities for payment. To this end, international financing agencies as well as the Governments and institutions of the developed countries, should effectively contribute to a revision of the terms for such borrowing on a basis of long maturity periods and low rates of interest.

4. Efforts must be intensified and resources increased in order to provide countries, on request with such technical assistance as will enable them to expedite their development and to use whatever external resources are available to them with the maximum degree of efficiency.

5. An indispensable step is to establish appropriate mechanisms whereby the developing countries can be compensated for any future damage to their interests that may result from the deterioration of their terms of trade. In view of the status of the studies and discussions already carried out on this subject, it is recommended that a comparative evaluation be made of the various existing projects, together with other suggestions to which thorough consideration has not yet been given, with a view to the adoption of a decision at the meeting of CECLA, which may lead to the selection of the system best fitted to serve the ends in view.

6. The compensatory credit system put into operation by the International Monetary Fund since February 1963 constitutes a definite step towards the solution of short-term financing problems, but it needs radical modification if it is to fulfill its purpose more efficiently. In this context, the following recommendations formulated by OAS (at the Meeting of the IA-ECOSOC Special Committee on Basic Products, 5 to 9 August 1963) should be adopted forthwith:

(i) In determining the magnitude of the decline in export earnings, more importance should be attached to their behaviour trends in the three-year period preceding the year in which the decrease takes place than to projections of exports for the two years immediately following it;

(ii) An exception should be established whereby compensatory credits are treated as completely independent of the gold tranche and of other successive credit tranches, so that the fact of obtaining compensatory credits neither directly nor indirectly militates against a member's chances of obtaining a current credit;

(iii) The amount allocated by the Fund to compensatory financing over and above its current transactions, should be increased from 25 to 50 per cent of the member country's quota.

These proposals should be supplemented by others, with the aim of making the scheme more automatic in its operation, simplifying and standardizing the criteria for granting funds, improving repayment terms and specifying the requisites to be fulfilled by member countries wishing to make use of the facilities in question.

7. Problems relating to insufficient international liquidity cannot be approached from the standpoint of the situation of the industrialized centres alone; the position of the developing countries must also be taken into consideration, and in their case, rather than transient circumstances, basic problems are involved, whose solution will entail fundamental changes of direction in world trade flows.

8. The lack of an adequate credit instrument for promoting exports from developing countries constitutes a factor that decisively limits their competitive capacity vis-a-vis exports from the industrialized countries. The use of international credit, through the appropriate mechanisms is therefore considered necessary for the financing of the developing countries' exports especially those requiring medium and long-term financing. Similarly, with the financial co-operation of the developed countries, insurance systems will have to be established that will cover all the risks—not merely those of a commercial nature—to which the exports of the developing countries are exposed.

With the same end in view, the industrialized countries should facilitate the establishment of uniform export credit financing and insurance practices for the developing countries and co-ordinate them with the international financing mechanisms which, by means of appropriate credit systems, can strengthen—as one agency has already begun to do—the competitive capacity of the developing country.

Similarly, the capital exporting countries should accord their contribution to the financing of the less developed countries' investment programmes on terms that will allow it to be used for the purchase of manufactured goods from developing countries, including the recipient, provided that the goods so purchased from part of the investment financed and that provision is made to ensure strict observance of the basic principles of competition as regards price, quality and delivery deadlines.

9. The industrialized countries should adopt policies designed to standardize the use of suppliers' credit in the short and medium-term financing of exports, and aiming at more favourable terms for the importer, with regard to time limits, rates of interest and other requisites, than have been in force hitherto. This will prevent the terms of payment from constituting a determinant of the direction of international trade flows, to the detriment of basic considerations of price, quality and delivery deadlines.

G. THE INSTITUTIONAL STRUCTURE
OF WORLD TRADE

1. An international organization within the United Nations system must be set up as soon as possible to deal with world trade problems, and, more particularly, to meet the needs of development. This new organization should have a membership open to all countries, it should have sufficient authority to guarantee the fulfilment of the decisions of the United Nations Conference on Trade and Development and of the United Nations itself in the field of world trade and development, and it should be capable of providing, on a permanent basis, the main impetus of all activities relating to world trade regarded as a means of economic development.

2. Until such time as the instruments for setting up a permanent organization of this kind have been
perfected, it is essential to establish immediate-action bodies with, as their central organ, the United Nations Conference on Trade Development, which would reconvene within one or two years. The Conference would have a standing committee and a permanent and qualified secretariat, as well as its own budget, and ad hoc committees as required, all of which would work in close co-operation with the Economic and Social Council and with the regional economic commissions of the United Nations, to promote the critical evaluation, revision, and, in due course, the co-ordination of the world trade and development activities of the other international bodies acting in this field. This analysis should identify areas of duplication or inconsistency, together with any gaps or shortcomings in the work of these bodies, in order to prepare for their gradual and smooth integration within a new structure. The committees would also further the groundwork for a future trade organization, while in the meantime formulating, as necessary, practical rules directed towards implementing the trade policy that emerges from the principles adopted by the United Nations Conference on Trade and Development. A number of committees would operate under the direction of the Conference, including:

(i) A committee concerned with the relations between the developed and developing countries, which would speedily transform the Conference's decisions and recommendations into a special agreement that would govern the trade relations between the two groups of countries.

(ii) A committee concerned with relations between the State-trading countries and the market-economy countries.

(iii) A committee that would function in close contact with the United Nations regional economic commissions to strengthen the links and solidarity between the developing countries as a whole, particularly those of different continents.

During the period in question GATT, as the negotiating body between its present Contracting Parties, should continue to concern itself with promoting world trade within its present sphere of competence, having regard to the general guideline approved by the Conference.

H. OTHER MATTERS

The meeting of Latin American Government Experts on Trade Policy expresses its appreciation of the co-operation afforded by the ECLA secretariat to the Latin American countries in their efforts to adopt a concerted position at the United Nations Conference on Trade and Development. Similarly, the Meeting records its gratitude for the valuable preparatory work done by the secretariat, including its report entitled *Latin America and the United Nations Conference on Trade and Development* and the organization of the Meeting at Brasilia, which are positive and substantial contributions towards the working out of a trade and development policy for the Latin American Governments.

In the light of these facts, the Meeting of Government Experts recommends that the ECLA secretariat should:

(1) Continue to prepare papers on specific technical questions to facilitate the work of the Latin American delegations to the United Nations Conference on Trade and Development;

(2) Continue to co-operate as actively as at present with the delegations of the Latin American countries during the Conference;

(3) Convene a meeting of the ECLA Trade Committee, after the Geneva Conference, with the aim of evaluating the results achieved at Geneva and formulating specific recommendations to the Latin American Governments on the trade policy that should be pursued in the light of those results, and invite to the said meeting of the Trade Committee the Latin American organizations competent in the field of trade and development, in particular the Organization of American States (OAS), the Latin American Free-Trade Association (ALALC), the Permanent Secretariat of the General Treaty on Central American Economic Integration (SIECA), the International Development Bank (IDB) and the Inter-American Committee on the Alliance for Progress (ICAP);

(4) Consider, at the said meeting of the Trade Committee, the establishment of a permanent Latin American system of consultations on trade and development, as suggested in resolution B-3/E63, adopted by the Inter-American Economic and Social Council at its second annual meeting at the expert level; for this purpose the ECLA secretariat should consult the Latin American Governments as soon as possible, to gather their opinions on the systems to be established, and should formulate its own suggestions which, once they have been studied by the Trade Committee, would be submitted to the eleventh session of ECLA, to be held in the year 1965.

Annex

LIST OF PARTICIPANTS

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*Representative:* Mr. Oscar Gandarillas Vargas

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2. Special Guests
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Inter-American Development Bank (IDB): Mr. Thomas F. Carrol
Latin American Free Trade Association (ALALC): Mr. José María Cazal
Latin American Centre for Monetary Studies (CEMLA): Mr. José María Cazal
Panel of Nine appointed by the Inter-American Economic and Social Council: Mr. Felipe Pazos
Permanent Secretariat of the General Treaty on Central American Economic Integration (SIECA): Mr. J. Abraham Bennaton
REPORT OF THE EXTRAORDINARY SESSION OF THE CENTRAL AMERICAN TRADE SUB-COMMITTEE*

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III. Resolution adopted

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I. BACKGROUND DATA

1. At the eighth session of the Central American Economic Co-operation Committee in 1963, a new dimension was introduced in the integration programme when it was decided that its activities would be directed not only at achieving the gradual merger of the member countries' economies, but also towards the possibilities of international co-operation between the Central American Common Market and the rest of the world.

2. As a first step in this new approach, it was considered that future activities should be channelled towards the establishment of closer economic relations with third countries or groups of countries and that the bases of a common trade policy and the structure of a joint negotiating body should be formulated in order to increase Central America's relative share of world trade and its external purchasing power, and to satisfy the requirements of sustained development.

3. In the years after 1962, the Central American Trade Sub-Committee completed the phases of negotiation and formulation of the instruments constituting the Common Market, and should now focus its attention both on the study of existing trade relations and possibilities for economic complementarity between the Central American economic unit and the rest of the world, and on analysing the inevitable repercussions on the external sector which—in addition to the Common Market itself and the institution of a customs union—must be caused by the trade and economic relations policy established on a regional basis.

4. The aim of the United Nations Conference on Trade and Development was to seek specific solutions to international trade problems affecting the developing countries and it afforded the Central American Governments the opportunity of formulating a preliminary outline of their possible future common trade policy based on the regional position adopted at the Conference, and of putting forward ideas concerning the specific fields of study that would have to be covered for the purpose.

5. Pursuant to resolution 221 (X), ECLA convened the Meeting of Latin American Government Experts on Trade Policy, scheduled to be held at Brasilia in January 1964, to decide on a concerted Latin American position regarding the questions which should be raised at the Conference.

6. In compliance with the undertaking established in the economic integration agreements in force—namely, to present a concerted position at all international meetings—the member governments considered it particularly desirable to meet before the Conference in order to decide Central America's position. It

*This report, prepared by the Secretariat of the Economic Commission for Latin America, summarizes the activities of the extraordinary session of the Central American Trade Sub-Committee, held at Mexico City from 6 to 11 January 1964. It is circulated in connexion with item 10 of the provisional agenda on the subject of "Expansion of international trade and its significance for economic development" (item 1 of the list of main topics). See Interim Report of the Preparatory Committee (first session), in Vol. VIII of this series. Its relation to other agenda items may be seen from the table of contents.
II. EXTRAORDINARY SESSION OF THE TRADE SUB-COMMITTEE

A. MEMBERSHIP AND ATTENDANCE

7. The extraordinary session of the Central American Trade Sub-Committee was held at the Mexico Office of the Economic Commission for Latin America (ECLA) from 6 to 11 January 1964.

8. It was attended by delegations from the five Central American countries and a representative of the Republic of Panama.

9. The Permanent Secretariat of the General Treaty on Central American Economic Integration (SIECA) was also represented.

10. The following is a list of delegations:

(a) Delegations of member States:

GUATEMALA
Chairman of the delegation: Hugo Ordoñez
Representatives: Guillermo Sáenz de Tejada, José de Jesús Monteaude, Oscar Pontaza, Gilberto Secaira, Gert Rosenthal

EL SALVADOR
Chairman of the delegation: Víctor Manuel Cuéllar Ortiz
Representative: Alexánder Vásquez

HONDURAS
Chairman of the delegation: Oscar A. Veroy
Representative: José B. Funes

NICARAGUA
Chairman of the delegation: Gustavo A. Guerrero
Representative: Roberto Morales Villarreal

COSTA RICA
Chairman of the delegation: Rodolfo Trejos Donaldson
Representative: Alvaro Sancho

(b) Panama
Representative: José B. Calvo

(c) Permanent Secretariat of the General Treaty on Central American Economic Integration: Abraham Bennatón Ramos

11. Mr. Carlos M. Castillo, Director of the ECLA Mexico Office, Mr. Porfirio Morera Batres, Secretary of the Committee, Mr. Alvaro de la Ossa, and other officials were present on behalf of the Economic Commission for Latin America.

12. Mr. Carlos Manuel Castillo, Director of the Mexico Office of the Economic Commission for Latin America, opened the session and welcomed the delegations. Mr. Gustavo A. Guerrero, Chairman of the delegation of Nicaragua, and Mr. Rodolfo Trejos, Chairman of the delegation of Costa Rica, were elected Chairman and Rapporteur of the session respectively.

B. AGENDA

13. The following agenda (E/CN.12/CCE/SC.1/90/Rev.1) was considered and adopted by the Sub-Committee:

(1) Opening meeting
(2) Election of the Chairman and Rapporteur
(3) Consideration and adoption of the agenda
(4) United Nations Conference on Trade and Development

(a) General considerations
(b) Latin America's problems and the Conference
   (i) Foreign trade and economic development of Latin America
   (ii) The main obstacles to an expansion of Latin America's foreign trade
   (iii) Future prospects and lines of action
(c) Consideration of proposals regarding Latin America's position at the Conference
(d) The position of the Central American countries

Documents

- Provisional agenda of the United Nations Conference on Trade and Development (E/CN.12/CCE/SC.1/91)
- Agenda of the Meeting of Latin American Government Experts on Trade Policy (E/CN.12/CCE/SC.1/92)
- Latin America and the United Nations Conference on Trade and Development (ST/ECLA/CONF.13/L.2)
- Latin America's position at the United Nations Conference on Trade and Development. Note by the secretariat (ST/ECLA/CONF.13/L.3)
- El sector externo y el desarrollo económico de Centroamérica (1950-1962) (Nota informativa de la secretaría) (CCE/SC.1/R.EX/D1.2)
- Interim report of the Preparatory Committee of the United Nations Conference on Trade and Development on its first session
- Report of the Preparatory Committee of the United Nations Conference on Trade and Development on its second session
- Formulation of recommendations to the Central American Governments
- Consideration and adoption of the Rapporteur's report
- Closing Meeting

C. ACCOUNT OF PROCEEDINGS

1. Introduction

14. The present extraordinary session marked the beginning of the Trade Sub-Committee's work aimed at formulating an exclusively Central American policy of trade and economic relations with the rest of the world. This was the Sub-Committee's first task

1 Reproduced in Vol. VIII of this series.
2 Idem.
within the new phase of its programme of work since, at its twelfth session, it had become clear that once the Common Market was established the Central American countries should devote increasing attention to the problems arising in the sphere of economic and trade relations with countries and groups of countries outside the area.

15. The importance of the United Nations Conference on Trade and Development for the continued progress of economic integration under conditions consistent with development needs became clear from a study of the trends followed by the external sector of the Central American economies during the previous decade.

16. The insufficient increment in the purchasing power of exports, which had characterized the early phase of the decade in question, and the decline in price of the main export items that had begun in 1955 and continued over the next few years, were responsible for the general economic stagnation in those countries and had been limiting the rate and possibilities of economic transformation sought within the Common Market.

17. Continued existence of those adverse external factors would maintain such limitations in the future and might even result in Central America's growth being oriented within a pattern of autarkic trends which—besides the equally restrictive effects deriving from inadequacy of the very internal foundations of the regional economic body—would have to be added to the fragmentary and distorted world structure of trade over the past thirty years.

18. The Sub-Committee emphasized the fact that the United Nations Conference on Trade and Development afforded an excellent opportunity—the first in more than a decade—for the industrialized and developing countries to join in adopting immediate measures and laying down the bases for a new international system of economic and trade relations which would resolve the external problems of the less-developed countries and constitute a powerful incentive to their future growth. In that respect the active participation of the Central American countries in the work of the Conference was of the utmost significance, in that the new system must determine how far such integration could benefit from the advantages offered by a world economic structure based on a rational division of labour between countries and areas, and at the same time constituted the framework of solutions, rules and principles in which the Common Market trade policy would have to be formulated.

19. The Sub-Committee likewise considered that the participation of the Central American countries in the Meeting of Latin American Government Experts on Trade Policy, to be held in Brasilia in January 1964, and in the other events preceding the Conference, would help towards a formulation of Latin America's viewpoints on those problems that would adequately reflect the area's needs and, in general, the interests of the group of countries which constituted the developing part of the world.

20. In concluding the extraordinary session, the Sub-Committee underlined the urgent need for member Governments to intensify their work in relation to the Conference, giving it the highest priority, and, once the Conference was over, to proceed systematically with their efforts to draw up a common trade policy, with the co-operation of the secretariat of ECLA and the Permanent Secretariat of the General Treaty on Central American Economic Integration in the relevant technical and research aspects.

21. As far as its own programme was concerned, the present extraordinary session marked the beginning of intensive work by the Sub-Committee in that field, which would be its major task in the next phase of its activities.


23. For the purpose of considering the various items on the agenda, the Sub-Committee considered and analysed the report entitled Latin America and the United Nations Conference on Trade and Development (ST/ECLA/CONF.13/L.2), prepared by the ECLA secretariat as a basic document for the Meeting of Latin American Government Experts on Trade Policy.

24. Prior to formulating recommendations on specific subjects, consideration was given to the general rules and principles that should guide the Conference's action and decisions aimed at setting up a new system of international economic and trade relations. It was pointed out that the problems setting the world economy had been the subject of sufficient study in recent years by the United Nations and other inter-governmental organizations.

25. To comply fully with its objectives, the United Nations Conference on Trade and Development should, therefore, channel its action mainly towards the adoption of specific and satisfactory solutions to existing problems, and also take measures and establish rules that would in future permit orderly relations between industrial and developing countries. The object of such solutions, measures and rules could be none other than that the external sector should cease to be an obstacle to economic growth in the developing countries and should instead act as an incentive to the achievement of at least the progress envisaged in the United Nations Development Decade.

26. The new system of international economic relations should include not only optional machinery, but also positive measures that would permit full advantage to be taken of the possibilities offered. It would have to be an integral system based on multilateral trade expansion, financing and technical cooperation programmes.

27. Within that concept, the Sub-Committee stressed that the new system should be based on international trade as the principal means of satisfying the external requirements of the developing countries' economic growth. The Central American countries were concerned that otherwise, foreign commitments—already considerable—might reach proportions wholly detrimental to their growth needs.
28. In addition to the internal efforts the countries of the area must make, it was essential that the more developed world centres should take measures which, both in number and scope, would be such as to result in satisfactory increases in the flow of goods from the Central American countries, under the head of both traditional basic commodities and new exports of services and manufactures, as part of a trend towards a diversified and balanced foreign trade structure. The result of such measures would have to be the elimination of the quantitative and other tariff restrictions currently imposed by the industrial nations on exports from the developing countries.

29. That, however, would not be enough. The industrialized countries would also have to take steps to encourage the growth of the developing countries, on the basis of a new concept of the principle of reciprocity and the application of the most-favoured-nation clause. Thus, the concessions they accorded would not necessarily entail the granting of reciprocal advantages by the less-developed countries, nor the extension of such concessions—as well as those granted by one developing country to another—to the more advanced centres.

30. It was considered that the new system of world trade should include such rules as might facilitate the integration of groups of developing countries, with a view to helping to bring about conditions which, instead of isolating them economically, would permit them to make full use of the advantages offered by a proper division of labour on a world-wide scale.

31. Lastly, in order to ensure its stability, the new system of international economic relations should operate wholly on a multilateral basis and include not only industrial and developing countries, but also those with different economic systems.

32. In relation to the foregoing considerations, the Sub-Committee recommended the member Governments, in resolution 25 (SC.1), to support the statement made by the developing countries at the second session of the Preparatory Committee of the Conference.

33. The conclusions and recommendations adopted by the Sub-Committee in connexion with the various specific matters to be dealt with by the United Nations Conference on Trade and Development, and most closely related to the problems affecting the Central American countries' external sector, are set out below. During the course of the discussions, the Sub-Committee further considered the question of exports of temperate-zone products, agricultural commodities, mineral ores and fuels and maritime transport, and recommended the Governments to give their unreserved support to any proposals that might be put forward to solve the problems concerned in the interests of the Latin American countries and, in general, of the developing countries most directly affected.

(3) Problems relating to exports of basic commodities

34. In the predictable future, the Central American countries' traditional exports of basic commodities—coffee, bananas, cacao, cotton and sugar—would continue to constitute the determinants of their capacity to import. It was therefore of the utmost importance that the necessary measures should be adopted to develop those exports sufficiently for the bottle-neck affecting the economic growth of the Central American countries to be eliminated. Since the major cause of the bottle-neck in question had so far been the depression of price levels on external markets, efforts should be mainly concentrated on the establishment of satisfactory conditions in that respect. Attention was also drawn to the importance attaching, from the standpoint of Central America, not only to the recovery of reasonable price levels, but also to their long-term stabilization with due regard to the trends followed by the prices of imports, since external purchases were an essential requisite if the economic development and integration of the area were to proceed at the rate and in the directions to be desired.

35. In relation to the specific measures that should be adopted for the attainment of the foregoing ends, the Sub-Committee was agreed as to the expediency of organizing traditional export markets on the basis of commodity agreements to which both producer and consumer countries were parties. The provisions of the existing agreements of that type would have to be amended and, in particular, the procedures for their application improved. In addition, such instruments would have to be extended to cover those markets which were as yet unregulated, in all cases where such a step was feasible and really likely to promote the more satisfactory operation of the markets in question.

36. In the same context, it was suggested that the use of the instruments available might not suffice to secure the recovery and stabilization of prices at appropriate levels, and that, moreover, there was a manifest lack of mechanisms whereby the efficacy of those instruments could be evaluated in terms of quantitative targets. One of the major tasks incumbent upon the institutions emanating from the Conference should therefore be the study and formulation of measures that would enable prices to be fixed by international negotiation in future, whether for direct application in international transactions, or for use as points of reference in the evaluation of such measures as might be adopted and the determination of what others were needful.

37. The Sub-Committee recognized that the elimination of the restrictions and discriminatory treatment affecting imports of tropical products in the industrialized countries would also do much to strengthen prices. Moreover, the importance of that question for Central America was increasing, inasmuch as the discriminatory measures adopted by the industrialized countries in recent years had combined with the problems already existing to jeopardize the continued access of exports from the area to the markets of many of the countries concerned.

38. The Central American Republics should advocate, as a key element in the decisions to be adopted at the Conference, the assumption by the more developed centres of a commitment to eliminate at the earliest possible date—not later, it was suggested,
than 31 December 1965—customs duties and excise taxes on tropical products, as well as to abolish other forms of discrimination, particularly the subsidies, quotas and long-term contracts currently used as means of artificially protecting domestic production and channelling imports to the advantage of other geographical areas.

39. Furthermore, the support given by specific industrial countries to certain developing countries ought not to redound to the detriment of the economic and trade interests of other members of the less advanced group. If discriminatory preferences were eliminated, the industrial countries could maintain their support in the form of positive programmes of equivalent effect, for example, in the fields of financing and technical assistance.

40. The industrialized countries should reconstruct the import tariffs applicable to final goods manufactured from tropical raw materials, so that there might be no obstacles to the development of such manufactures in the Latin American countries. In the case of items for which the necessary raw materials were not produced in the more developed countries, such reforms should consist in the total liberalization of imports, both of raw materials and of the goods manufactured from them.

(4) Expansion of exports of manufactures and semi-manufactures

41. It was made clear in the course of the discussions that the diversification of the Central American countries' foreign trade, in terms of increasing flows of exports of manufactures and semi-manufactures, was a matter for the early attention of the governments concerned. In connexion with internal growth possibilities, it was pointed out that the Central American economic unit would still be too small for the establishment of certain basic industries, whose installation was necessary for the attainment of a rate of development in manufacturing industry that would be conducive to economic growth, even if only on a modest scale. It was therefore indispensable to seek ways and means of establishing such branches of activity on the basis of exports to countries outside the area. The creation of conditions designed to facilitate exports of industrial products would do much to promote the formation of a more efficient and more highly productive structure of manufacturing industry than would result from the unilateral pursuit of import substitution.

42. Accordingly, the Sub-Committee endorsed proposals to the effect that the industrialized countries should establish duty-free quotas, up to an amount equivalent to 5 per cent of their domestic consumption, in favour of exports of final manufactured consumer goods from the developing countries.

43. With reference to intermediate products, it was recommended that everything possible should be done to procure the elimination of import tariffs by the developed countries, within a reasonable time limit. The countries in question should not discriminate against imports of manufactured goods from the developing countries and in favour of the raw materials they produced, either by means of the tariff instru-

44. All the measures referred to should be adopted in accordance with the new principle of reciprocity previously defined, and should therefore not be contingent upon reciprocal concessions on the part of the developing countries.

45. Although the above-mentioned measures, and others likewise suggested in the ECLA secretariat document, would help to establish a favourable climate, they would not suffice to expand real flows of industrial exports from developing countries like those of Central America. To attain that objective, it would be essential for general concessions to be supplemented by selective measures, in relation to specific export lines, and, above all, by international financing and technical assistance programmes which would enable the less-advanced countries, on the basis of concrete achievements, to take full advantage of the possibilities thus created. In such programmes priority should be given to the smaller developing countries and, in particular, to those in process of economic integration. In the latter case, the cooperation of the industrialized countries should be channelled primarily through the specialized regional agencies of the integration movements concerned.

(5) Financing of trade and development

46. The Sub-Committee stressed that the external financing of the trade and of the economic development of the developing countries constituted a single problem, and that although it presented different aspects, they all demanded the same approach. Obviously, in so far as the expansion of exports and the terms of trade followed satisfactory trends, the external credit requirements of the countries concerned would be modified and their borrowing capacity would improve. Thus an organic inter-relationship existed between the measures adopted in the fields of trade and of financing and it should be recognized that if any of them were to prove inadequate during specific periods there ought to be a possibility of promptly and flexibly applying others that would fill the breach.

47. In view of the importance of the external sector for the expansion of economic activity in developing countries and of the above-mentioned inter-relationships, the Sub-Committee deemed it highly desirable that appropriate measures should be adopted to remove those obstacles to internal development efforts which derived from uncertainty as to the predictable evolution of external trade and financing. Such measures might be crystallized in an over-all programme drawn up by the industrialized countries of the world to meet the external financing requirements of developing countries through the promotion of their export trade and through actual financing programmes.

48. That was a principle which the Latin American countries had been trying to establish as one of the
corner-stones of the Alliance for Progress, and which seemed a reasonable co-operation formula that might be adopted by the advanced countries in general.

49. With reference to the external financing of development, the Sub-Committee pointed out that the sums required could be determined on the basis of planning, after quantification of the funds that could be raised by means of a maximum internal effort. The amounts to be contributed could then be established as a specific percentage of the national income of the economically advanced countries.

50. It was also considered essential that existing external credit terms should be brought into line with the requirements of the developing countries as regards time limits, rates of interest, and financing of pre-investment studies and of expenditure in local currency, beginning with an adjustment of the terms of the external debt already contracted.

51. The Sub-Committee expressed its appreciation of the efforts that had been made by various international agencies to devise systems of compensatory financing to recoup the developing countries for losses of income deriving from the deterioration of the terms of trade. In the case of the International Monetary Fund, the outcome had been the establishment of a special mechanism in 1963.

52. The opinion was voiced, however, that none of the efforts in question had fully met the needs of the developing countries, either because the amount of the financing proposed or available was too small and the period covered too short or, above all, because the requirements stemming from the very nature of the problems it was hoped to solve were not really satisfied.

53. In that connexion, the Sub-Committee contended that measures designed to compensate for downward movements in the terms of trade should not, strictly speaking, be conceived of as credit programmes, but as direct transfers of income from the countries that had benefited to the countries whose interests had suffered. From that point of view, credit facilities should be made available under such programmes only in the case of losses of external income caused by an abnormal reduction of the quantum of exports from countries at a relatively less advanced stage of economic development.

54. Another of the recommendations adopted by the Sub-Committee, in the context of solutions for basic commodity problems, concerned the need for the developing countries to have access to adequate financing facilities for their programmes relating to the turning over of areas used for traditional export crops to new productive activities which would provide alternative sources of foreign exchange.

55. In relation to the financing of exports of manufactured goods, it was thought essential that the industrialized countries should establish standard financing and credit insurance practices, based on criteria relating to the nature of the goods and the scale of the transactions concerned, which should meet the requirements of the export trade only, and should no longer be used as instruments for the financing of development programmes—which should be covered by other means—and for the distortion of normal trade flows.

(6) Geographical diversification

56. The Sub-Committee discussed the possibilities for geographical diversification of international trade. As far as trade with the centrally-planned economies was concerned, available information seemed to suggest that their markets offered significant opportunities for expansion. In view of the characteristics deriving from their organization under systems different from those of the market economies, the determination and exploitation of these possibilities would call for different instruments and procedures. Thus, for example, it would be necessary to define reasonable trade prospects on the basis of commitments assumed by the countries in question in respect of quantitative targets for trade with the developing countries. Such targets would have to be incorporated in their long-term plans and in their immediate decisions concerning foreign trade. In the agreements eventually concerted, reciprocal satisfactory conditions should also be stipulated with regard to prices, settlement of accrued balances, quality of goods, re-exports, etc. Again, the same principles as had previously been formulated in respect of the industrialized market economies should be applied, through equivalent procedures, in relations between the developing countries and the industrialized countries with centrally-planned economies.

57. The expansion of economic and trade relations between developing countries in different continents would also meet an important need in connexion with the geographical diversification of trade. There again it was likely that the development of such relations would call for measures and mechanisms unlike those on which trade policy had traditionally relied. The dissimilarities would arise firstly from the dynamics of the developing countries' own growth and secondly from the need to differentiate adequately between the procedures linking them with one another and with the more advanced economic centres.

58. It was essential that sufficient background data on the foregoing problems should be available, and the regional economic commissions of the United Nations would be called upon to take a decisive part in the carrying out of the studies in depth that were required.

59. The Sub-Committee also requested the ECLA secretariat and the Permanent Secretariat of the General Treaty on Central American Economic Integration to include the analysis of the real possibilities for trade between Central America and the centrally-planned economies among the studies they prepared in connexion with Common Market trade policy.

(7) Institutional media

60. For the efficacious implementation of decisions adopted at the Geneva Conference, and in order to ensure the well-regulated development of world trade in the future in conditions adapted to the needs of the developing countries, the Sub-Committee endorsed the proposal that had been formulated
in various circles to the effect that a specialized international organization should be set up within the framework of the United Nations. Such an organization would have to be universal in character, and should possess the requisite means and mechanisms not only to cover tariff questions, but also to tackle other important problems affecting the foreign trade of the developing countries and the expansion of their economic activity, as indicated throughout the present report.

61. Bearing in mind that the establishment of such an organization would take some time, and that many of the relevant problems confronting the countries of the region were clamouring for solution, the Sub-Committee recommended the creation of mechanisms for immediate action pivoting upon the United Nations Conference on Trade and Development. The mechanisms in question might consist of three ad hoc committees to deal with matters concerning, respectively, relations between developed and developing countries, between countries where State trading was the rule and countries with market economies, and among developing countries.

62. Similarly, GATT would continue to operate within the sphere of its jurisdiction, in relation to its existing members and on the basis of the broad guiding principles approved by the Conference, as well as of those established in its own statutes.

(8) Expressions of thanks

63. At the closing meeting, the Sub-Committee congratulated the Chairman of the session on his conduct of the proceedings and the Rapporteur on the report presented, and also passed a vote of thanks to the ECLA secretariat for its hospitality, for the background documents it had presented and for its effective co-operation during the session.

III. RESOLUTION ADOPTED

UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

25 (SC.1). Resolution adopted on 11 January 1964

The Central American Trade Sub-Committee

Convinced that the United Nations Conference on Trade and Development, to be held at Geneva during the second quarter of 1964, offers the countries of the world an opportunity for joint discussion of the chief problems relating to international trade and of their repercussions on the level and tempo of development, for adopting immediate solutions and for laying the foundations of a system of economic relationships based on principles of co-operation and solidarity among the participants and capable of meeting the needs of the developing countries,

Bearing in mind that before the Conference a Meeting of Latin American Government Experts on Trade Policy, convened by the Economic Commission for Latin America (ECLA), is to be held at Brasilia with a view to preparing, for submission to the Latin American Governments, recommendations concerning opinions and solutions that might be propounded at Geneva with reference to the various problems to be discussed at the Conference,

Considering that the formulation and adoption of a policy for the whole area in respect of trade and economic links with the rest of the world is one of the main objectives pursued by the Central American economic integration process at its present stage, in the light of the targets already attained and of existing requirements,

Trusting that the decisions to be adopted at the United Nations Conference will help to construct an appropriate framework of solutions, rules and principles within which Central American trade policy can be defined and channelled, and that, in this connexion, the Meeting at Brasilia affords a favourable opportunity for putting forward suggestions and points of view concerning the needs of Latin America in general and Central America in particular,

Having considered the ECLA secretariat document entitled Latin America and the United Nations Conference on Trade and Development (ST/ECLA/CONF. 13/2), of which it takes note with satisfaction,

Declares that the United Nations Conference on Trade and Development is of the utmost importance for the Central American countries, inasmuch as the measures and decisions adopted at the Conference with a view to the prompt and effective solution of the external economic problems facing the developing countries might establish more favourable conditions for their trade and financial relations and exchange of technical knowledge with the rest of the world, and might thus facilitate the subsequent continuation of the economic integration and development process which the Central American countries have been jointly promoting for more than ten years;

Decides:

1. To recommend to the Central American Governments:

(a) That they intensify their activities in connexion with the United Nations Conference on Trade and Development, the Meeting of Latin American Government Experts on Trade Policy, and the other events to take place at the Latin American level prior to the Geneva Conference, giving them top priority;

(b) That to this end they follow the lines advocated by the Sub-Committee with respect to the general rules and principles and the specific topics that should be discussed at the Conference, as indicated in the text of the report of the present extraordinary session, with special emphasis on the peculiar characteristics of those developing countries which, like the Central American Republics, are in process of economic integration, since within the framework of the guiding principles suggested, these characteristics call for specific solutions appropriate to the cases in question;

(c) That they endorse the joint statement formulated by the representatives of developing countries at the second session of the Preparatory Committee of the Conference, the text of which is given as an annex to the present resolution;
(d) That in formulating the views and proposals to be put forward at the Geneva Conference, they bear in mind the recommendations emanating from the Meeting at Brasilia;

(e) That the delegations of the five countries, as representatives of the Central American economic unit, should co-operate energetically in the activities contemplated under point 1(a) above, as well as in the work of co-ordination mentioned in paragraph 1(e).

ANNEX

JOINT STATEMENT MADE BY REPRESENTATIVES OF DEVELOPING COUNTRIES AT THE SECOND SESSION OF THE PREPARATORY COMMITTEE OF THE UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

At the closing of the second session of the Preparatory Committee, the representatives of Argentina, Brazil, Colombia, Ethiopia, the Federation of Malaya, India, Indonesia, Jordan, Lebanon, Madagascar, Nigeria, Pakistan, Peru, Senegal, the United Arab Republic, Tunisia and Yugoslavia made the following joint statement, which the Committee agreed to include in its report:

I

The developing countries consider that the United Nations Conference on Trade and Development should represent an outstanding event in international co-operation conducive to the development of their economies and the integrated growth of the world economy as a whole. They believe that the full attainment of even the modest targets of the United Nations Development Decade will depend on the concrete decisions taken at this Conference and their effective implementation. They are already making, and are determined to continue making, great efforts for their economic and social advancement through full mobilization of domestic resources, agricultural development, industrialization and diversification of their production and trade. But this task can be accomplished only if these domestic efforts are supplemented and assisted by adequate international action. The developing countries look to the United Nations Conference on Trade and Development to help them reach the stage of self-sustaining growth.

II

International trade could become a more powerful instrument and vehicle of economic development not only through the expansion of the traditional exports of the developing countries, but also through the development of markets for their new products and the general increase of their share in world exports under improved terms of trade. For this purpose, a new international division of labour, with new patterns of production and trade, is necessary. Only in this way will the economic independence of the developing countries be strengthened and a truly interdependent and integrated world economy emerge. The development of production and an increase in the productivity and purchasing power of developing countries will contribute to the economic growth of the industrialized countries as well, and thus become a means to world-wide prosperity.

The existing principles and patterns of world trade still favour mainly the advanced parts of the world. Instead of helping the developing countries to promote the development and diversification of their economies, the present tendencies in world trade are frustrating their efforts to attain more rapid growth. These trends must be reversed. The volume of the developing countries' trade should be increased and its composition diversified, the prices of their exports should be stabilized at fair and remunerative levels, and international transfers of capital should be made more favourable to them so as to enable them to obtain through trade more of the means needed for their economic development.

To achieve these objectives, a dynamic international trade policy is required. This policy should be based on the need for providing special assistance and protection for the less-developed parts of the world economy. The removal of obstacles to the trade of the developing countries is important but the accelerated development of the parts of the world which are lagging behind requires more than the unconditional application of the most-favoured-nation principle and the mere reduction of tariffs. More positive measures aimed at achieving a new international division of labour are essential to bring about the necessary increase in productivity and diversification of economic activity in the developing countries. The measures taken by developed countries to promote the development of the relatively backward areas within their national boundaries provide a guide for the purposeful and dynamic action which needs to be taken in the field of international economic co-operation.

III

The fundamental trade problems of developing countries are well identified. What the world is lacking today is, therefore, not awareness of the problem, but readiness to act. Many constructive proposals were advanced during the second session of the Preparatory Committee. The representatives of developing countries making this statement recommend to all States Members of the United Nations that they give earnest consideration to these proposals and that they explore, before the beginning of the Conference, all practical means for their implementation, so that at the Conference basic agreement can be reached on a new international trade and development policy. This policy, in accordance with resolution 1783 (XVII) of the General Assembly, should lead to the adoption by the Conference of concrete measures to achieve, inter alia, the following:

1. Creation of conditions for the expansion of trade between countries at a similar level of development, at different stages of development and having different systems of social and economic organization;

2. Progressive reduction and early elimination of all barriers and restrictions impeding the exports of the developing countries, without reciprocal concessions on their part;

3. Enlargement of the volume of exports of the developing countries in primary products, both raw and processed, to the industrialized countries, and stabilization of prices at fair and remunerative levels;

4. Expansion of the markets for exports of manufactures and semi-manufactures from the developing countries;

5. Provision of more adequate financial resources at favourable terms, so as to enable the developing countries to increase their imports of capital goods and industrial raw materials essential for their economic development; and better co-ordination of trade and aid policies;

6. Improvement of the invisible trade of the developing countries, particularly by reducing their payments for freight and insurance and the burden of their debt charges;

7. Improvement of institutional arrangements, including, if necessary, the establishment of new machinery and methods to implement the decisions of the Conference.
IV

The developing countries look forward to more stable and healthy international economic relations in which they can increasingly find from their own resources the means required for self-sustaining growth. They are confident that the United Nations Conference on Trade and Development will not only be able to contribute to the acceleration of their economic development, but will also be an important instrument for promoting stability and security in the world.

The developing countries expect that the Conference will offer an opportunity for the manifestation, in the field of trade and development, of the same political aims that were responsible for the San Francisco Charter and the creation of the United Nations. They are confident that, in this spirit, the decisions of the Conference will bring about fuller international co-operation, and that greater progress can be made towards the attainment of collective economic security. International trade will thus become a strong guarantee of world peace and the Conference will be a landmark in the fulfilment of the United Nations Charter.
ACTIVITIES OF THE ECONOMIC COMMISSION FOR AFRICA RELATED TO THE UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT*

1. In response to a recommendation of the second session of the Standing Committee on Trade of the Economic Commission for Africa, requesting the Executive Secretary "to prepare a summary of the main issues to be raised at the United Nations Conference on Trade and Development with recommendations regarding points that should be stressed by African Governments and present this paper for extensive discussion at the sixth session of the Committee", the Secretariat prepared document E/CN. 14/279, part of which is presented below.

2. The developing countries of Africa have fully supported resolution 1785 (XVII) of the General Assembly. Six African countries (Ethiopia, Madagascar, Nigeria, Senegal, Tunisia and the UAR) participated in the first two sessions of the Preparatory Committee as full members and eight other countries (Algeria, Cameroon, Congo (Leopoldville), Gabon, Ghana, Morocco, Sudan and Uganda), were represented by observers. Five African countries (Gabon, Ghana, Nigeria, Tunisia and the UAR) submitted memoranda to the second session of the Preparatory Committee outlining their views and suggestions on the provisional agenda of the Conference.

3. Most African countries associated themselves with the Joint Declaration of Developing Countries with regard to the United Nations Conference on Trade and Development, made at the eighteenth session of the General Assembly and annexed to its resolution 1897 (XVIII).

4. The Summit Conference of Independent African States, which created the Organization of African Unity, adopted a resolution welcoming the forthcoming United Nations Conference on Trade and Development. Subsequently, the Economic and Social Commission of the Organization of African Unity at its first session adopted resolution ECOS/12/RES/1 (I), reaffirming the vital importance of the Conference and recommending to Member States to pursue jointly the following common positions, inter alia:

(a) Support all measures aimed at enabling the foreign exchange resources of developing countries to increase at a rate proportionate to the needs of their development;

(b) Urge the acceptance of the principle that the developed countries should, in any programme they adopt for reducing the barriers to trade, give priority to the needs of the developing countries, and accept the non-implementation of the principle of reciprocity in their trade with developing countries;

(c) Urge further acceptance by the developed countries of the principle that the developing countries should be accorded preferential treatment;

(d) Request the developed countries, jointly or separately, to have as an objective the abolition of all discrimination applicable to their imports from developing countries;

(e) Recommend that the developing countries should liberalize and strengthen their trade and monetary relationships amongst themselves with a view to setting up mutually beneficial trade agencies within the framework of integrated and co-ordinated programmes of action or development schemes;

(f) Urge in particular that the Conference should take concrete measures for the improvement of the terms of trade of the developing countries and the maintenance at equitable and remunerative levels of the relationships between prices of primary commodities and industrial goods;

(g) Consider the establishment of multi-commodity schemes for the stabilization of prices and primary commodities;

(h) Request that the existing institutional machinery in the field of international trade be reviewed and revised in order to create an international trade organization adjusted to the needs of the developing countries;

(i) Support the setting up of an international machinery for the financing of the flow of trade of developing countries not only for their short-term requirements, but also for the requirements of their long-term development schemes.

5. The Economic Commission for Africa, at its fifth session, adopted resolution 79 (V) which welcomed the decision to convene the United Nations Conference on Trade and Development and called upon all African Governments to follow closely the preparatory work and to submit for use of the Conference relevant studies and information papers. Resolution 79 (V) also called upon the secretariat of the Economic Commission for Africa, inter alia, to assist in the preparation of studies relating to African trade problems.

6. Much of the work of the secretariat of the Economic Commission for Africa has been devoted to subjects in the general field of trade and development, thus contributing to the body of information on which the Conference will base its deliberations.

* This document was prepared by the secretariat of the United Nations Economic Commission for Africa. It is submitted in connexion with item 10 of the provisional agenda on the subject, "Expansion of international trade and its significance for economic development" (item I of the list of main topics). See Interim Report of the Preparatory Committee (first session), in Vol. VIII of this series.
Specifically the secretariat of the Economic Commission for Africa submitted a number of documents to the second session of the Preparatory Committee and for the use of the Conference, and has co-operated with other United Nations bodies in their preparation of certain studies for the Conference.

7. At the second session of the Standing Committee on Trade of the Economic Commission for Africa, a preliminary exchange of views took place about the proposals for action to be considered at the United Nations Conference to improve the trade position and prospects of the developing countries. The discussion was opened by the Secretary-General of the Conference, Mr. Raúl Prebisch.

8. In the discussion following Mr. Prebisch's remarks, it was suggested that it would be advisable for African countries to meet again with a view to discussing the various issues to be examined at the Conference and, as in so far as it was feasible, the formulation and adoption of a common approach. It was unanimously agreed that the sixth session of the Economic Commission for Africa would offer an excellent opportunity for a further exchange of views on this subject.

EXPANSION OF INTERNATIONAL TRADE AND ITS SIGNIFICANCE FOR ECONOMIC DEVELOPMENT

9. The relative slow development of export earnings in the face of considerable growth in import outlays and the consequent deterioration in the trade balances of the developing countries, along with the depletion of exchange reserves and the increase in external indebtedness, constitutes a most disturbing element in the contemporary picture of international trade. In the nineteen-fifties, the volume of exports from the developing countries rose at a rate of only 3.6 per cent per annum as against the rate of growth in exports from the developed private enterprise economies of about 7 per cent and a 11 per cent expansion in the export quantum of the centrally-planned economies. On the other hand, the volume of imports into the developing countries during the same period rose at an annual rate of 4.6 per cent. While the average price of goods exported by the developing countries in 1960 barely exceeded the level of 1950, the average price of their imports was significantly higher with the result that the terms of trade had declined by 9 per cent. The sluggish increase in their export volume and the deterioration in their terms of trade have led to a significant contraction in the share of the developing countries in total world trade. The latter accounted for about one-third of total world trade in 1950, but by 1960 their share had fallen to about one-fifth.

10. A large and expanding export volume on favourable terms is of particular importance to African countries since an exceptionally high percentage of the region's output is exported and a very considerable part of total expenditures on capital as well as consumption goods is made on imports. During the period 1956 to 1961, the expansion in Africa's (excluding South Africa) export volume (by 34 per cent or an annual rate of over 5 per cent) outpaced the rise in import volume (by 23 per cent, or at an annual rate of about 4 per cent), but the growth in total export earnings lagged behind that in import outlays. This development resulted from a sharp decline in export unit values, accompanied by only a slight drop in average import prices. Any deterioration in the terms of foreign trade constitutes a problem of significant dimensions for Africa and imposes a severe handicap on achieving a satisfactory rate of economic growth.

11. It was stressed by all African Governments which participated in the work of the Preparatory Committee of the United Nations Conference on Trade and Development that favourable international action in the field of trade and development policy is indispensable for the success of their efforts aimed at continued industrialization and diversification of their economies. If the African countries cannot sell their raw materials and manufactured goods in sufficient quantities and at sufficiently remunerative prices, their capacity to import vital supplies of investment and other goods essential for development activities will be severely curtailed, and the possibility of attaining even the modest targets of the United Nations Development Decade seriously jeopardized.

12. It is absolutely essential that if the needs of African countries for a diversified and enlarged export trade are to be met in order to help them attain self-sustaining growth, not only new barriers to their exports should be erected but there should be a progressive reduction and eventual removal of all trade restrictions in the developed countries. In particular, immediate action must be taken towards the dismantling of outstanding quantitative restrictions, the rapid elimination of tariffs and internal fiscal charges and revenue duties on those commodities especially important in Africa's exports, and an early reduction and elimination of differentials between tariffs on products in primary and processed form. All these measures should be taken by the developed countries without requiring or expecting reciprocity from the developing countries. Furthermore, in addition to the dismantling of trade restrictions the developed countries should consider according preferential treatment to goods from developing countries, preferably on a non-discriminatory basis. Also, no efforts should be spared and all appropriate measures taken to expand trade among the developing countries themselves, with complete freedom to grant one another any necessity preferential treatment.

13. While some African countries benefit at present from the preferential tariff systems which were in operation when the GATT came into being and some by virtue of special relations with the EEC, it would be in the long-range interest of the region as a whole to see such preferences abolished. It must be recognized, however, that for those African countries at present benefiting from such trade preferences special transitional arrangements for the necessary adjustment may be necessary. On the other hand, the developed countries should not continue to enjoy preferential access in the markets of the developing countries since the latter must be left free to secure their import requirements from the most economical sources of supply.
In addition to a concerted attack on trade barriers, urgent consideration must also be given to devising effective ways and means of ensuring the desirable diversification of the economies of the developing countries and the expansion of export proceeds. It is generally recognized that lack of information or "know-how" in developing countries about market opportunities abroad, as well as lack of information in developed countries about export availabilities from the developing countries, is a limiting factor to trade expansion. There is, indeed, a vast scope for rendering assistance which the developed countries could provide in the following fields: preparation and launching of export promotion programmes, market investigations, adaptation of products of the developing countries to the requirements of world markets, sales techniques and establishment of export organizations. Besides, a most useful contribution to the efforts of the developing countries to achieve expansion would be the establishment of an international trade information centre through joint efforts of the developing as well as the developed countries. The individual developed countries might also consider the possibility of helping to directly promote in their own markets exports from developing countries and to orient the latter towards areas of production most likely to meet consumer demand.

INTERNATIONAL COMMODITY PROBLEMS

15. About 90 per cent of Africa's total export income is derived from primary products and base metals, and success in meeting growing import requirements implicit in development outlays will continue to be crucially dependent on the prices and volumes of primary products sold in international markets. The recent trends in world production and trade have been marked by a growing imbalance between the demand for and the supply of most agricultural products and by the failure of primary products to keep pace with the remarkable growth of manufactured goods in the expanding total value of world trade. African suppliers, along with developing countries in other regions, have suffered from the persistent weakness in international commodity markets. Among factors which have contributed to this development mention may be made of technological advances affecting both the supply and demand side, through larger average yields, increasing use of synthetic substitutes for natural raw materials and a tendency for some manufacturing processes to require a diminishing input of raw materials. Moreover, the increasing self-sufficiency of developed countries in certain foodstuffs and agricultural raw materials, in large measure resulting from related price supports and protectionist measures such as quantitative restrictions, high import duties and internal fiscal charges, have been also responsible for the deterioration of the trade position of the primary producers.

16. In terms of obstacles to the access to the markets of developed countries, of paramount urgency is the early elimination of tariff and non-tariff barriers on the primary products important in the trade of developing countries. African countries should particularly support any proposals seeking free entry of tropical products as well as the removal at the soonest possible date of those internal charges and revenue duties which have the effect of considerably increasing the retail price and holding down the consumption of such products. Processing of foodstuffs and industrial raw materials being a natural and very promising way of developing the manufacturing potential of developing countries, African countries should demand a speedy disappearance of tariff differentials between unprocessed and processed raw materials.

17. Although only limited success has been so far achieved by international commodity agreements, there seems to be a growing inclination among both developing and developed countries to examine the possibilities of their extension to cover a wider range of products. Further progress, however, would mainly depend on the willingness of developed countries to collaborate in maintaining commodity prices at stable and more remunerative levels, which in the long-run will redound to their advantage in the form of higher demand for their exports by the developing countries. In this respect, the recent negotiations over the international coffee agreement were as encouraging as those over the cocoa agreement were discouraging. African governments have a strong interest in international recognition of the vital role of such agreements towards the organization of world markets in primary commodities. The success of any commodity agreement hinges on the co-operation and fullest possible participation of both consuming and producing countries, effective control of supplies, and equitable export quotas periodically revised to ensure a distribution, taking into account changes in the relative efficiency of producing countries.

18. African countries should also give serious thought to a better co-ordination of their national policies through consultation and co-ordination of their long-range plans for commodity production from the point of view of avoidance of harmful competition among them. There is also considerable scope for better co-ordination among the developing countries and the various international bodies in the field of primary commodities with a view of elaborating consistent policies for the widest possible range of commodities in the context of over-all trade and development needs.

19. Fluctuations in earnings from commodity exports have a very disturbing effect on the balance-of-payments situation of the developing countries and adversely affect development planning. Consequently, a good deal of international attention in recent years has been devoted to the possibility of evolving compensatory financing schemes which, whether complementary or alternative to price support measures implicit in commodity arrangements, would act to stabilize export earnings of developing countries. A group of experts appointed under General Assembly resolution 1423 (XIV), in a report submitted to the Commission on International Commodity Trade recommended the creation of a "development insurance fund" to be complementary to existing instruments of compensatory action, and schemes
have been also proposed by other sources. Recently, the International Monetary Fund decided to extend compensatory assistance by liberalizing the drawing rights available to its members for meeting shortfalls in their export earnings. It is in the interest of African countries that the case for an effective compensatory financing scheme, in principle, be vigorously pressed.

20. As regards other outstanding commodity issues, co-ordinated policies governing the disposal of surpluses, to be absorbed without disrupting commercial markets, and the release of excess materials from strategic stockpiles, are in the interest of developing countries. Moreover, international policies must be adopted to secure substantial moderation of the agricultural protection in the developed countries.

TRADE IN MANUFACTURES AND SEMI-MANUFACTURES

21. In addition to sufficient access to international markets for foodstuffs and industrial raw materials, developing countries should have substantial outlets for their semi-manufactured and manufactured goods in order to achieve the necessary expansion of export earnings. As they increasingly acquire industrial skills and capabilities and turn to the production of a widening range of goods, the developing countries must be provided with increased opportunities to sell in world markets the industrial goods they can economically produce.

22. The formulation of appropriate measures for bringing about a steady expansion of exports of manufactured goods from the developing countries must take into account the important distinction existing between the import systems of the private enterprise developed countries and the centrally-planned economies. As regards the former countries, they should be prevailed upon to undertake a thorough examination of their trade policies with a view to a reduction and elimination of tariff and non-tariff barriers on manufactures of particular export interest to developing countries. Special attention should be given to various restrictive measures, including "voluntary" agreements to avoid "market disruption", aimed at so-called "low cost" or "low wage" countries. While it is generally recognized that specific industries in developed countries may be affected by certain imports of manufactured goods from developing countries, the solution of this problem does not lie in trade restrictions, but rather in appropriate changes in the industrial structure in the developed countries. However, the problem should become easier as the export trade of developing countries become more diversified. In addition to the removal of trade barriers, the developed countries should furthermore consider the granting of preferential treatment to exports of manufactures from the developing countries. Such arrangements, linked with a system of suitable export incentives for the manufactured goods produced by the developing countries, could stimulate larger output and an increase in efficiency, which would be expected, eventually, to dispense with the need for preferential treatment. While the private enterprise developed countries could not be expected to accept firm commitments to purchase annually certain quantities of manufactures from the developing countries, they should be persuaded to establish quantitative targets to be aimed at, and to agree to a procedure reviewing the progress achieved and deciding on appropriate policies to reach such targets.

23. In the case of the centrally-planned economies, the trade results from the overall economic plan, and therefore it is more feasible to achieve certain quantitative objectives. Thus, specific commitments should be sought from the centrally-planned economies to import in significant and increasing quantities manufactured goods produced by the developing countries. Moreover, the centrally-planned economies should be prevailed upon to agree that they shall refrain from the introduction of such measures as may have an analogous effect to tariffs, quotas or internal taxes and, in particular, shall maintain at a reasonable level and not increase the margin between import prices and retail selling prices of goods.

24. There are also various obstacles to the trade among the developing countries themselves, often similar to the barriers which they face in the markets of developed countries, and, at least partly, because of them. There is much scope for the expansion of trade among the developing countries of various regions as well as on an intra-regional basis. In Africa, a concerted attack on the various obstacles which have so far hindered any significant expansion of intra-African trade will involve increased collaboration in development programmes and co-ordination of investment policies within the framework of regional and sub-regional economic integration schemes. Finally, the developing countries should be encouraged to and assisted in the establishment of well-conceived export incentive and production schemes which would help them to become more efficient producers and exporters of manufactured goods (e.g., export credit and insurance facilities, fiscal incentives, import entitlements and drawback privileges, adequate sales promotion and market research facilities, etc.).

PROBLEMS OF THE INVISIBLE TRADE OF DEVELOPING COUNTRIES

25. An analysis of the balance of payments of almost all developing countries reveals that their invisible trade transactions—mainly on account of investment income (interest and dividends), freight and insurance, travel and government services—show a considerable deficit which absorbs a significant proportion of their export receipts and in many cases amounts to more than the deficit on merchandise account. This has been a traditional pattern, opposite to that prevailing for developed countries as a whole, in whose case receipts from invisible transactions have normally exceeded payments. Since developing countries have been net importers of capital on a substantial scale, interest and dividend payments have been the largest component of their invisible account. The growing external indebtedness of developing countries and the attendant rise in debt servicing, mitigated only by the extent of reinvestment of foreign profits in their economies, has become a serious obstacle to new borrowing. To the extent that capital inflows consist
of grants in low-interest and long-maturity loans, the burden of debt services is eased for the developing countries. Shipping and insurance, which are among the prominently established industries in the developed countries, have traditionally operated in the international field, in payments for freight and insurance related to their international trade is the second major element in the invisible trade of developing countries.

26. This situation cannot continue unchanged and calls for a series of measures, which could be expected to result in a larger participation of national or regional enterprises in servicing the external sector of the developing economies. In particular, the possibilities of establishment by developing countries under suitable conditions, of multi-national and regional shipping companies and airlines should be thoroughly investigated, so that a part of revenue originating from the transport of goods and persons into and out of the developing countries could accrue to their own privately or publicly owned enterprises. This is one of the fields where foreign assistance for the purpose of building up those national or regional transport services may appropriately be applied. Such action would have to be accompanied by the elimination of any existing discriminatory and restrictive practices in respect of ocean freights and provision of shipping services, which militate against the interests of the developing countries. Also, foreign assistance could be appropriately applied to the improvement of port facilities, and their joint utilization by the developing countries should be promoted. The establishment of domestic insurance industries and regional reinsurance schemes also merits serious consideration. Similar schemes are already in existence in other developing areas, especially in some of the larger Latin American republics. This example could be followed and a legal framework worked out, ensuring that profits accruing from foreign insurance business in the developing countries are not transferred wholly abroad but are reinvested or lent locally through the national private banking systems. In this connexion, solutions to the very difficult problem of imposing reasonable limitations on the repatriation of investment income must be sought in such a way that this does not result in damping the flows of capital transfers to the developing countries. In view of the spectacular growth in international travel in recent years, there are favourable prospects for considerably increasing the travel receipts of developing countries, particularly in Africa, provided that appropriate action is taken on the scale required to attract tourists in large and increasing numbers. There is need for minimizing travel formalities, the organization of national tourist offices and the necessary publicity campaigns, the improvement of hotel and other tourist facilities and services and development of new resorts, the improvement of transport facilities and introduction of cheaper fares, and in many of these fields financial aid and technical assistance could be rendered by developed countries and international organizations. Thus, co-ordinated action to improve the invisible account of the developing countries could in the context of the balance of payments as a whole have the same effect as a net amelioration in export receipts.

FINANCING FOR AN EXPANSION OF INTERNATIONAL TRADE

27. The goal of accelerating the pace of economic development in the developing countries cannot be accomplished without a very significant increase in their capacity to import. The crucial necessity for capital transfers arises from the fact that export proceeds fall short of import requirements, and that domestic saving has to be supplemented to meet capital requirements necessary for speeding up the process of development. Over the decade of the fifties, the amount of net capital transfers helped in offsetting to a large extent the cumulative total of deficits incurred on the current account. Except for official grants which represented only a small part of the total capital inflow in the developing countries during the fifties, all other elements, such as official credits, private investments and short-term credits, have added to the external indebtedness of the developing countries. As already mentioned, the problem of finding means to service and repay the external debts obligations has assumed major proportions.

28. To improve the effectiveness of capital transfers and also lighten the debt burden of the developing countries, urgent consideration should be given to the question of adequate volume, terms and conditions governing these flows. African countries, in conjunction with other developing countries, have already proposed measures for the co-ordination and growth of capital assistance. For instance, immediate steps should be taken to increase the resources of existing international lending institutions, especially the International Development Association so that it may be able to provide more liberal and better terms to the borrowing countries. International institutions could also provide additional sources of financing to such regional bodies as the African Development Bank. A substantial portion of capital assistance should be advanced through better co-ordinated international or regional channels. Methods should be devised for relating the terms and conditions of aid to the over-all long-term needs of developing countries and significant proportion of aid must be made in the form of grants and long-term loans with low rates of interest. The possibility of servicing external debts through exports additional to normal commercial deliveries of goods from developing countries, should be explored. In a broader context, aid and trade policies should be harmonized and made mutually consistent in terms of the relationship between aid projects and the export opportunities of recipient countries.

IMPLICATIONS OF REGIONAL ECONOMIC GROUPINGS

29. The question of the implications of regional economic groupings and/or preferential trading arrangements can be viewed from the point of view of either, the likely impact which such groupings of developed areas may have on the trade and development of the less-developed countries, or the possible consequences which the institution of such schemes among the developing countries may have for the trade and development of the less-developed countries themselves. The needs and aspirations of the developing countries cannot be satisfied by mere conjectures
and assurances that the acceleration of prosperity in the industrialized countries as a result of their participation in schemes of regional economic integration will lead to the maintenance of a high level of international trade and strengthen the world economy. Formal guarantees and adoption of concrete methods, measures and machinery are needed to ensure that the less-developed countries in fact do share in, and benefit from the growth of total demand in the industrialized countries.

30. The developing countries have serious misgivings about the effects of preferential arrangements established by the European Economic Community on third countries, as they affect exports of primary commodities and manufactured goods from the developing countries. There is in particular deep anxiety about the implications of a protectionist and trade-diverting common agricultural policy which would lead towards increased production and agricultural self-sufficiency of the European Economic Community (EEC). The association of certain African countries with the European Economic Community also raises serious problems for the trade and development of other developing countries. From the point of view of non-associated African countries, the association, in its present form, does tend to divide Africa into two groups: one, which enjoys an access to the whole market of the EEC, and the other, which faces a common external tariff barrier. A perpetuation of such a situation would be bound to militate against all-African economic integration. It appears that the compatibility of the relevant provisions of the present Convention of Association with the possibility of the creation of regional markets, including both non-associated and associated countries cannot be firmly assessed until an actual test case has been resolved by the Council of Association; the EEC countries should, nevertheless be pressed for a binding commitment that such arrangements, including the possibility of discrimination against the EEC, are permissible.

31. The European Free Trade Association is a relatively loose association with, unlike in the case of the EEC, no requirement for a common commercial or trade policy towards, and a likely lesser impact on, third countries. The national tariffs against third countries have remained unchanged, and internally the free trade agreement provides for removal of all duties on industrial products only, although special arrangements are envisaged for increasing trade in agricultural products and fish. However, it would seem possible that in certain circumstances, under the rules of origin adopted under the Stockholm Convention, an indirect extension of the area of effective preferences currently enjoyed by Commonwealth countries in the United Kingdom market might occur, with adverse consequences for other developing countries, but it is difficult to assess fully the importance of a trade diversion of this sort.

32. While the trade of developing countries with the centrally-planned countries has increased significantly since about the mid-fifties and shows a great potential for further growth, it must be recognized that to the extent that the centrally planned countries (members of the Council for Mutual Economic Assistance) place reliance on inter-regional preferential trading and bilateral expediency, the impact of these practices may be as undesirable as the discriminatory effects arising from preferential systems applied by any other economic grouping. Various developing countries have accumulated credit balances with the centrally-planned countries and it would serve the economic and commercial interests of the developing countries if transferability of balances within CMEA countries and from CMEA countries to other countries or vice versa could be achieved. As already mentioned, centrally-planned countries should be invited to offer specific import commitments in regard to the goods from the developing countries and incorporate these import targets in their development programmes.

33. Many of the developing countries have come to consider greater economic integration as the primary means for stimulating their economic growth. Integration in under-developed areas would make it possible to achieve significant economies of scale and a better utilization of resources. Larger regional markets would encourage the establishment of new industries that could not achieve maximum efficiency within the limitations of small national markets. However, as seems to be widely recognized, the functions of a regional or a sub-regional market or any other preferential trade arrangement in the conditions of under-development are quite different from those of economic groupings of developed countries. It should be of extreme importance for African countries, which are about to launch their own economic integration schemes, to obtain along with other developing regions international recognition of the need for complete freedom of action with respect to commercial policies in so far as this is required for the furtherance of their economic development.

Institutional arrangements, methods and machinery to implement measures relating to the expansion of international trade

34. The following four alternative proposals were submitted to the Preparatory Committee for discussion by a group of experts appointed by resolution 919 (XXXIV) of ECOSOC:

(a) To set up a completely new specialized agency, a United Nations International Trade Organization, on the basis of universal membership;

(b) Governments to use more fully and constructively the machinery already at their disposal by further evolution of the GATT in directions in which it is already moving, and by reorganization of the work of the Economic and Social Council and the General Assembly;

(c) Positive revision of the GATT structure independent of other changes in the United Nations apparatus in general;

(d) To establish a permanent forum open to all Members of the United Nations and supported by a representative standing committee and a competent executive organ within the United Nations Secretariat.

35. The discussion of proposals concerning the building up of an institutional framework capable of
coping effectively with the expansion of international trade, and particularly with the specific problems of developing countries, will be among the most important items on the agenda of the Conference. While it is certain that opinions on this issue will differ widely, it is likely that the reaction of the four alternative proposals will polarize around two basic sets of ideas: (a) the use of the existing organizations—particularly GATT—once they have been reorganized to be better suited than hitherto to deal with problems of developing countries; (b) the establishment of a completely new trade machinery—in the form of a United Nations specialized agency—which would centralize all the work on international trade and which, right from its inception, would be in a position to pay full attention to the problems of the developing countries.

36. In this respect, the African countries seem to be more in favour of the second solution which, from the viewpoint of the developing countries in general, appears to be more promising. In resolution 2 (X), the Economic and Social Commission of the Organization of African Unity “requests that the existing institutional machineries in the field of international trade be reviewed and revised in order to create an international trade organization adjusted to the needs of the developing countries.”

37. Since the creation of a completely new trade organization may prove to be a very difficult and drawn-out task, the second solution could be probably more easily, if only partially, achieved by a compromise formula. Serious consideration should be therefore given to the possibility of making the Conference on Trade and Development a permanent organ of the United Nations and merging with it the existing organizations, including the GATT, suitably reorganized to fit into the new pattern.

38. The new machinery should be open to the participation of all Member States of the United Nations family and be able to deal effectively with the problem of developing countries as well as with every problem resulting from trade and payments relationships between all countries regardless of their stage of development or economic or social system. The purpose of this machinery would be not only to serve as a forum but also to frame policies aiming at the solution of trade and development problems, and review and modify them in the light of progress made towards the achievement of such policies, taking a unified, comprehensive approach to international trade and finance problems in the general framework of economic development.

39. The Conference on Trade and Development could meet periodically, say once in two or three years, and appoint a Standing Committee to look after the day-to-day work. When the Conference is in session, the Standing Committee would report to the Conference and when the Conference is not in session, the Standing Committee would report to the Economic and Social Council and the Second Committee of the General Assembly. The Conference and the Standing Committee should be supported by an executive agency within the United Nations Secretariat.

40. At the sixth session of the Commission, trade

and development problems, together with the need for intensifying co-operation among African countries, were discussed at great length. Serious concern was expressed about the relatively slow development of export earnings, adverse price movements and the persistent tendency towards external imbalance. It was generally felt that at higher rates of economic growth consistent with the objectives of the Development Decade, the adverse balance of trade of the African countries would be even greater if the recent trends continued. The paramount importance of the forthcoming United Nations Conference on Trade and Development and the unique opportunity it provided to find ways and means of resolving fundamental trade problems of developing countries was stressed by all African delegations. The Joint Declaration of Developing Countries with regard to the United Nations Conference on Trade and Development made at the eighteenth session of the General Assembly and annexed to its resolution 1897 (XVIII) was often quoted and fully endorsed. It was felt that international trade could become a powerful instrument of economic development only if there was a rapid expansion in the export earnings of developing countries under improved terms of trade and if adequate measures, methods and machinery were devised to assure a substantial growth in export earnings derived from sales of primary commodities as well as semi-manufactured and manufactured goods. The resolutions adopted by the Economic and Social Commission of the Organization for African Unity at its first session in Niamey in December 1963, which reaffirmed the vital importance of the United Nations Conference on Trade and Development and recommended immediate action to alleviate the trade problems of the African countries, were fully supported.

POINTS TO BE STRESSED BY AFRICAN GOVERNMENTS

I. African countries should demand firm and early target dates for a phased reduction leading to complete elimination of tariff and non-tariff barriers to their exports of primary commodities and semi-manufactured products. Any agreed upon exceptions to a firm schedule of trade liberalization by the developed countries should be limited to a small percentage of their imports but speedily phased out. Quantitative restrictions should be eliminated by 31 December 1964 at the latest.

II. African countries should demand the adoption of international trade rules permitting deviations from the application of the unconditional form of the most-favoured-nation clause. The developing countries should receive unilateral preferential treatment from the developed countries and should be free to grant preferences to one another.

III. Duty free entry into the developed countries should be granted to tropical products immediately, and internal charges and fiscal duties on such products should be progressively reduced with a view to their total elimination by 31 December 1965.

IV. African countries should support all efforts to widen the scope of international commodity
agreements with a view to an orderly organization of world markets in primary commodities which would ensure stable and remunerative prices for their exports of such products. African countries should also support the principle of the establishment of a "development insurance fund."

V. International action should be directed to a deliberate effort to moderate the trend towards intensified protectionism in the area of agricultural and other raw materials in developed countries, which results in accumulation of surpluses through moving away from price support to income compensation measures for the producers of such commodities. Appropriate methods should be devised to regulate "surplus disposal" to avoid harmful competition with commercial exports of developing countries.

VI. The maintenance by many developed countries of traditional tariffs higher on semi-processed goods than raw materials, is a factor retarding the desirable diversification of the economies of developing countries. This kind of tariff differentiation should be phased out with the least possible delay.

VII. Any across-the-board reductions in the forthcoming GATT tariff negotiations (the so-called Kennedy round) should apply to all developing countries without any requirement of reciprocity, and should be also extended to those African and other developing countries not participating in these negotiations.

VIII. African countries should press the developed countries for a speedy liberalization of their imports of semi-manufactured and manufactured goods from developing countries. Methods and consultation machinery should be devised to ensure that imports from developing countries representing a certain minimum percentage of domestic consumption in developed countries are accorded duty free access, and also to obtain commitments from the developed countries on certain global import targets to be aimed at.

IX. African countries should press, where appropriate, for international aid in export incentive and promotion schemes which would help them become increasingly diversified and efficient exporters to the developed countries.

X. Urgent international action is needed to improve the position of the invisible account of the balance of payments of the developing countries. Capital transfers should be made on terms and conditions which do not overburden the debt capacity of the developing countries. In general, special attention must be paid to the harmonization of trade and aid policies.

XI. An adequate institutional framework to enable the United Nations to discharge its responsibilities, with a view to dealing effectively with questions relating to the expansion of international trade, and particularly with safeguarding the interests of developing countries, should be established. A more immediate task would be to set up a permanent forum, open to all Members of the United Nations and supported by a representative standing committee and a competent executive organ within the United Nations Secretariat.

41. The Commission adopted resolution 97 (VI) as follows:

UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

Resolution 97 (VI) adopted by the Commission at its 111th plenary meeting on 28 February 1964

The Economic Commission for Africa,
Mindful of the paramount importance of the forthcoming United Nations Conference on Trade and Development,
Inspired by the objectives of the Charter of the Organization of African Unity,
Convinced of the vital significance for developing countries of the United Nations resolution on the Development Decade,
Conscious of the role that the developed nations have to play in closing the gap between the developed and developing regions,
Recalling its own resolution 89 (V) of 1 March 1963 which inter alia calls upon the Executive Secretary to assist in the preparation of studies relating to African trade problems and taking note of the list of suggestions and proposals contained in document E/CN. 14/279,
Reaffirming in particular the joint declaration of the developing countries made at the second session of the preparatory Committee and accepted by General Assembly resolution 1897 (XVIII),
Reaffirming further resolution ECOS/12/RES/1/I of the Economic and Social Commission of the Organization of African Unity adopted at its first session in Niamey, Niger, which inter alia recommended African countries to pursue jointly a common position at the United Nations Conference on Trade and Development,
Bearing in mind that other regions have taken measures to co-ordinate and harmonize their views at the said conference,

1. Appeals to all developed countries to formulate their trade and development policies with due regard to the needs of the developing countries to attain the objectives of the Development Decade;

2. Affirms the imperative necessity for African countries to establish a co-ordinating committee composed of the African countries which have already participated in the preparatory Committee plus any additional member countries that will eventually be designated by the African delegations from among themselves;

3. Urges African Governments to authorize their representatives to establish such a committee;

4. Invites the provisional secretariat of the Organization of African Unity to service the co-ordinating committee;

5. Assigns the following terms of reference to the Co-ordinating Committee;
(a) To co-operate with the Secretary-General of the United Nations Conference on Trade and Development with a view to preparing an atmosphere conducive to a constructive review of international trade relations;

(b) To co-ordinate the positions of African countries among themselves and with the other developing countries;

(c) To assist the Conference in reaching concrete decisions that will advance the general aims of the Conference and of the United Nations Development Decade;

6. Requests the Executive Secretary to assist the Co-ordinating Committee by way of providing all information and expert services necessary to the attainment of the objectives of the Conference.
INTRA-AFRICAN TRADE*

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I. INTRODUCTION

1. The significance of intra-African trade can be correctly assessed when due attention is paid to its main specific features, particularly to the fact that it consists of a large proportion of traditional trade which is being recorded only to a small extent. Though a great number of monographs and ad hoc estimates

*This paper was prepared by the secretariat of the United Nations Economic Commission for Africa in connexion with item 10 (d) of the provisional agenda on the subject "Trade problems between countries at similar level of development" (item 1.4 of the list of main topics). See Interim Report of the Preparatory Committee (first session), in Vol. VIII of this series.

1 Throughout the present paper, under "intra-African trade" is understood any trade among African countries excluding South Africa, which is discussed separately in the annex.

2 See footnote 4.
exist on African traditional or otherwise unrecorded trade, the statistical analysis carried out by the Economic Commission for Africa and the statistics given by the United Nations Statistical Office did not take this element into consideration and also no systematic attempt has hitherto been made to integrate the dispersed material on that subject into a single study.

2. Intra-African trade could be defined in at least three different ways which naturally lead to different evaluation of its significance. These three definitions could be formulated approximately as follows:

(a) Any movement of goods across political borders in Africa;

(b) Any movement of domestic products for domestic consumption across political borders in Africa;

(c) Any recorded trade between African countries (trade within customs unions being considered as internal trade and therefore excluded).

3. The difficulty of obtaining reliable estimates of unrecorded trade going on between countries and within customs unions has led to the application of the third definition and consequently to a general underestimate of intra-African trade.

4. The first definition covering all movements of goods between African countries goes to the other extreme including goods for re-export, transit, etc.5

5. The best solution seems to be to apply the second definition with due regard to transit and re-export trade (which should be treated separately). Such an approach will help to reveal the real significance of intra-regional trade which, in the case of Africa, is not so negligible as it appears when considering recorded trade only and omitting trade within customs unions. This is the reason why the second definition covering all movements of domestically produced goods across political frontiers was applied in this study.

6. As already stated, one of the specific features of intra-African trade is that it consists of a large proportion of traditional trade,4 some of which came into existence in the distant past and continued to exist between areas which became possessions of different colonial powers and, later, between independent countries. The total value of this trade can be estimated at $130-140 million annually, with a proportion of approximately 75 per cent of live animals and fish, traded mainly in West Africa.6

7. At present more than three-quarters of this trade are going on without being recorded. According to a very cautious estimation, the value of unrecorded intra-African trade amounts approximately to $133 million which in 1959 represented about 28 per cent of total intra-African trade.5

8. Another feature of intra-African trade is that a considerable part of it is concentrated within customs unions.7 The treatment of trade within the customs unions as a part of intra-African trade is the only way of getting consistent time-series because of changes in membership and inadequate procedures of registration. Moreover, it is a general practice to record trade within customs unions as foreign trade (e.g., Benelux and the European Economic Community). Mention should also be made of the fact that recording of intra-trade within the customs unions in Africa follows different procedures from one union to another.

9. The general lack of adequate statistical data on intra-African trade and the inconsistency of those available makes the analysis of this trade extremely difficult. It is in most cases practically impossible to make quantitative comparisons of intra-African trade over a period of time owing to the many profound changes that have taken place in the last decade.8 All these obstacles are the main reasons why the present paper is essentially of a static character.

10. Finally, the fundamental differences between African countries on the one side and the Republic of South Africa on the other, make it imperative to deal separately with South Africa and its special conditions. This is why in the present paper South Africa has been completely excluded from intra-African trade and treated separately in the annex.

II. MAIN FLOWS OF INTRA-AFRICAN TRADE

A. RELATIVE IMPORTANCE OF INTRA-AFRICAN TRADE

11. As already stated,9 the magnitude of intra-African trade defined as any movement across political borders including unrecorded trade and trade within customs unions, is considerably higher than that which has been officially recorded so far as trade between African countries. Tables 1 and 2 show that in 1959 and 1961 the values of intra-African trade as defined in the former way were at least twice as high as the values of intra-trade as formulated under the latter definition.

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5 From the viewpoint of over-all trade and problems concerning payments, transport, etc., it is naturally important to follow also these movements of goods.

4 Traditional trade is carried out by local traders in substantially the same conditions as internal trade; transactions generally take the form of barter or quasi-barter, traders accompanying their merchandise, and it consists mainly of unprocessed agricultural products coming from small African producers. However, because of the nature of this trade traffic in one direction frequently includes imported manufactures.

3 This category of trade includes also kola nuts (West Africa), coffee (from Ethiopia to Sudan), vegetables (chiefly onions and garlic from Togo, Dahomey, the Niger, Nigeria to Ghana), spices (salt pepper, chat from Ethiopia to Somalia), ivory (from the Congo 'Leopoldville' to Tanganyika and Zanzibar), rice, milk and timber etc. The uncertainty of the weather makes it necessary for the same countries to enter this trade now as net importers, and as net exporters, according to harvest yields, etc.

7 Including items of modern trade and trade within customs unions and excluding intra-regional trade of South Africa (see note in table 2).

8 West African Customs Union comprising Mali, Senegal, Mauritania, Ivory Coast, Dahomey, Upper Volta and Niger. Within this union, a special grouping was created (Entente) comprising Ivory Coast, Upper Volta, Niger and Dahomey which also provides for a customs union. Equatorial Customs Union embracing Congo (Brazzaville), Gabon, Chad, Central African Republic and Cameroon. Customs Union between Ghana and Upper Volta. Customs Agreement between Ghana and Niger involving suspension of customs duties between both countries. East African Common Market comprising Kenya, Uganda and Tanganyika.

9 What, for example, was previously considered as internal trade became later external trade. Moreover, a legalization of "smuggling" takes place from time to time, etc.

See paragraph 5.
Table 1
Africa: Comparison between the growth of total external trade and intra-regional trade
(In millions of US dollars and in percentages)

<table>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Exports, f.o.b. From Africa to the world</td>
<td>1869</td>
<td>870</td>
<td>867</td>
<td>2999</td>
<td>4041</td>
<td>3906</td>
<td>3948</td>
<td>4263</td>
<td>4422</td>
<td>4516</td>
<td>4456</td>
<td>4514</td>
<td>4736</td>
<td>5122</td>
<td>5197</td>
</tr>
<tr>
<td>Intra-African exports</td>
<td>111</td>
<td>52</td>
<td>43</td>
<td>130</td>
<td>176</td>
<td>162</td>
<td>172</td>
<td>194</td>
<td>210</td>
<td>220</td>
<td>208</td>
<td>200</td>
<td>184</td>
<td>209</td>
<td>225</td>
</tr>
<tr>
<td>Intra-African exports as per cent of total African exports</td>
<td>5.9</td>
<td>6.0</td>
<td>4.9</td>
<td>4.3</td>
<td>4.3</td>
<td>4.1</td>
<td>4.3</td>
<td>4.5</td>
<td>4.7</td>
<td>4.9</td>
<td>4.7</td>
<td>4.4</td>
<td>3.9</td>
<td>4.1</td>
<td>4.3</td>
</tr>
<tr>
<td>Imports, f.o.b. Into Africa from the world</td>
<td>1839</td>
<td>874</td>
<td>828</td>
<td>2856</td>
<td>4093</td>
<td>4283</td>
<td>4061</td>
<td>4180</td>
<td>4620</td>
<td>4750</td>
<td>5250</td>
<td>4280</td>
<td>5160</td>
<td>5660</td>
<td>5680</td>
</tr>
<tr>
<td>Intra-African imports</td>
<td>111</td>
<td>52</td>
<td>43</td>
<td>130</td>
<td>176</td>
<td>162</td>
<td>172</td>
<td>194</td>
<td>210</td>
<td>220</td>
<td>208</td>
<td>200</td>
<td>184</td>
<td>209</td>
<td>225</td>
</tr>
<tr>
<td>Intra-African imports as per cent of total African imports</td>
<td>6.0</td>
<td>5.9</td>
<td>5.2</td>
<td>4.5</td>
<td>4.3</td>
<td>3.8</td>
<td>4.2</td>
<td>4.6</td>
<td>4.5</td>
<td>4.6</td>
<td>4.0</td>
<td>4.6</td>
<td>3.5</td>
<td>3.6</td>
<td>3.9</td>
</tr>
<tr>
<td>Intra-African trade as per cent of total African trade turnover</td>
<td>5.9</td>
<td>5.9</td>
<td>5.0</td>
<td>4.4</td>
<td>4.3</td>
<td>3.9</td>
<td>4.2</td>
<td>4.5</td>
<td>4.6</td>
<td>4.7</td>
<td>4.3</td>
<td>4.5</td>
<td>3.7</td>
<td>3.8</td>
<td>4.1</td>
</tr>
</tbody>
</table>


Note.—All figures apply to recorded trade only, excluding trade within customs unions. Figures concerning years 1928, 1935 and 1938 are not directly comparable with those for years 1948, 1951 and 1956, since they apply to different statistical units (see sources). The same applies also, to a smaller extent, to figures concerning intra-African trade in the years 1948, 1951, 1952, 1953, 1955 and 1955.

Table 2
Africa: Total trade with the world and intra-regional trade, 1959 and 1961
(F.o.b. values in millions of US dollars and in percentages)

<table>
<thead>
<tr>
<th></th>
<th>1959</th>
<th>1961</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Africa's exports to the world</td>
<td>4940</td>
<td>5390</td>
</tr>
<tr>
<td>Intra-African exports</td>
<td>393</td>
<td>424</td>
</tr>
<tr>
<td>Intra-African exports as per cent of total Africa's exports</td>
<td>7.9</td>
<td>7.8</td>
</tr>
<tr>
<td>Total Africa's imports from the world</td>
<td>5344</td>
<td>5854</td>
</tr>
<tr>
<td>Intra-African imports</td>
<td>393</td>
<td>424</td>
</tr>
<tr>
<td>Intra-African imports as per cent of total Africa's imports</td>
<td>7.3</td>
<td>7.2</td>
</tr>
<tr>
<td>Intra-African trade as per cent of total Africa's foreign trade turnover</td>
<td>7.6</td>
<td>7.5</td>
</tr>
</tbody>
</table>


Note.—Intra-African exports and imports were computed from both recorded and estimated unrecorded figures, including recorded trade within the East African Common Market and estimated trade within West African Customs Union and Equatorial Customs Union. All figures excluding South Africa. The following estimated figures of unrecorded trade* were added to the recorded ones (in millions of US dollars):

(i) West Africa:
- Trade among countries of the West African Customs Union | 74  | 65  |
- Trade between countries, members of the West African Customs Union and other West African countries | 44  | 27  |
- Trade among countries of the Equatorial Customs Union | 10  | 10  |
(ii) Central Africa:
- Unrecorded trade within the whole sub-region | 6   | 6   |

TOTAL | 134 | 108

12. Table 1, which is based on recorded trade only, reveals that while in the period 1938-1961 the absolute values of African over-all as well as intra-regional trade increased several times, the relative significance of the latter slightly declined during the whole period because of slower growth of intra-African trade as compared with the growth of African world trade (5 per cent in 1938 and 4.1 per cent in 1961 of the total African world trade turnover).

13. As to the intra-African trade comprising any movement of goods across political borders (that is also unrecorded trade and trade among member countries of customs unions), it was impossible to include any data concerning the period preceding 1959 because of the lack of sufficiently consistent estimates covering the major part of unrecorded trade.

14. A recently published study, including estimates of unrecorded intra-West African trade, made it possible to compile table 2 which reveals that the share of intra-African trade, including estimated unrecorded movements of goods between African countries and the trade within existing customs unions in the over-all African trade, has also slightly declined in the period 1959-1961. This conclusion can be drawn with the limitation inherent to the inadequacy of the available estimated as well as recorded data and in spite of the fact that for both years (1959 and 1961) the same estimates of unrecorded trade have been applied as far as trade within the Equatorial Customs Union and within the whole central sub-region is concerned. The decline, between 1959 and 1961, of unrecorded trade among countries of the

* Domestic products only.
North African Customs Union and between themselves and other West African countries shown in the footnote of table 2 should be seen as a partial result of the fact that a considerable volume of unrecorded intra-West African trade was legalized (registered) in 1961 (in Ghana, Senegal, Mali, Upper Volta, Togo, Dahomey, Niger and Cameroon).11

15. The tendency of intra-regional trade to lag behind the African over-all trade over a period of thirty years reflects the fact that the outwardly oriented African economy, leaving short scope for intra-trade, remains practically unchanged.12 This conclusion refers to the whole period covered by table 1 except the period during the war and immediately after it when intra-African trade played a more important role than in the other years.

16. Although the intra-African trade as a whole plays a very modest role in the economy of Africa, it is of major significance for several individual countries (which of course implies that for several other countries it is practically unimportant). These considerable intra-countries differences in the relative importance of intra-African trade can be seen from table 3. Mauritania and the majority of the West African land-locked countries like Mali, Upper Volta and Niger depend heavily on their exports to the neighbouring coastal countries. In 1961 their sales to Ghana, Nigeria, Ivory Coast and Senegal consisting mainly of live animals and fish were close to 60-90 per cent of their total world exports.16 Similarly, Chad depends to a considerable extent on cattle exports to Nigeria and Cameroon and meat to the two Congos. Worth noting also is the dependency on neighbouring countries of Senegal and Kenya, and to a lesser extent of the Congo (Brazzaville) and Ivory Coast for their exports of manufactures.

17. Imports of African origin are relatively important for the member countries of the West as well as the East African Customs Unions. The share of Africa in the total world import reached the highest level (close to 30-40 per cent) in countries which have also the highest share of Africa in their over-all imports (Mali, Niger, Upper Volta and Mauritania).

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African sub-regions according to intra-continental trade pattern and the concentration of population and production

**Chart**

Central sub-region was second in importance with 28 per cent share, followed by the north-west and north-east sub-regions accounting for 16 and 10 per cent, respectively.

23. Table 4 also shows that the highest concentration on intra-African trade was reached in the central sub-region (92 per cent of total imports and 80 per cent of total exports in 1961). To this heavy concentration in intra-trade contributed mainly the high proportion of trade conducted among countries of the East African Common Market. The principal African sources of imports into the central sub-region from outside were Morocco [to the Rhodesias and Congo (Leopoldville)], Algeria (to the Reunion) and various West African countries. Exports to destinations outside the sub-region, amounting to nearly $30 million, were somewhat evenly distributed among the other three sub-regions, the main clients being Algeria (from Madagascar and the Rhodesias), Sudan (from Kenya and Uganda), Somalia (from Kenya), the UAR (from the Rhodesias), and the Equatorial Customs Union [from the Congo (Leopoldville)].

24. In West Africa, the concentration of trade within the sub-region reached 83 per cent in the same year. The main flows of intra-West African trade are running in the north-south and the south-north direction, with connexions between coastal and inland countries. One of the strongest incentives for the development of this trade has been the complementary character of the area. It should be noted that there exists also a significant movement of goods between coastal countries particularly between Senegal and the Ivory Coast, facilitated by relatively cheap seaport, which, to some extent, was related to institutional links between the countries concerned.

25. The bulk of intra-west African trade in 1961 was conducted between Ghana, Nigeria, the Ivory Coast and Senegal as the principal importers and the Ivory Coast, Mali, the Upper Volta, Senegal and the Niger as the main exporters in this sub-region.

26. Mention should be made of the fact that the considerable increase of trade which occurred within this sub-region in the period under review was partly due to improvements in the statistical recording of certain countries, particularly Ghana.

27. The participation of North-West Africa in the intra-regional trade during 1959-1961 fell from $86 to $75 million, i.e., from 20 to 16 per cent owing to the relative precision of statistics on seaborne trade and the impression of estimates of unrecorded trade; the margin of error is considerably greater for those figures which include a high proportion of such estimates. Since the estimates included in table 4 are on the low side, the relative importance of North Africa's intra-trade is rather over-estimated and that of West Africa underestimated as well as the relative importance of trade within the West African sub-region as compared with West Africa's total intra-African trade and, of course, vice versa. Furthermore, the proportion of reasonably good trade records is substantially higher in the central sub-region which include also a large amount of trade carried by railways. This, together with the high proportion of trade within the East African Common Market, can explain the high concentration of intra-African trade of this sub-region within the sub-region itself.

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18 **North-west, north-east, west and central. For further details see table 4.**

19 **See footnote 7.**

17 Except a highway connecting the north-east with north-west sub-regions through Libya. It should be mentioned that, by convention, the delineation of the sub-regions as indicated in the chart had to coincide with the political borders of the countries, whereas on the basis of pure economic logic it would have been quite different.

18 **Because of the relative precision of statistics on sea-borne trade and the impression of estimates of unrecorded trade, the margin of error is considerably greater for those figures which include a high proportion of such estimates. Since the estimates included in table 4 are on the low side, the relative importance of North Africa's intra-trade is rather over-estimated and that of West Africa underestimated as well as the relative importance of trade within the West African sub-region as compared with West Africa's total intra-African trade and, of course, vice versa. Furthermore, the proportion of reasonably good trade records is substantially higher in the central sub-region which include also a large amount of trade carried by railways. This, together with the high proportion of trade within the East African Common Market, can explain the high concentration of intra-African trade of this sub-region within the sub-region itself.**

19 **Ghana's recorded imports from West Africa rose from $10.8 million in 1959 to 21.9 million in 1961. See para. 14.**
mainly to a sharp reduction of Algeria's imports from other sources.\textsuperscript{20} This was also the main reason why the comparatively low concentration of intra-trade between countries of the same origin. In the absence of any reliable estimate of unrecorded trade of the sub-region as a whole, Algeria's passive balances of inter-regional trade were to a large extent offset by Morocco's net exports (in million dollars) with Senegal (4.2), Ghana (2.6), Cameroon (2.1), Equatorial Customs Union (1.3), Ivory Coast (1.3).

\textsuperscript{20} Imports (c.i.f.) into Algeria from Africa amounted to $67 million in 1959, rose to $74 million in 1960 and fell sharply to $55 million in 1961 (in line with the fall of total imports from the world).

\textsuperscript{21} Algeria ranking first among African countries as to intra-regional trade, receives the bulk of its imports originating in Africa traditionally from the Franc Zone countries (Morocco, Tunisia, Ivory Coast, Senegal, Cameroon and Madagascar).

### Table 4

**Intra-African trade according to sub-regions 1959-1961**

*(In millions of US dollars)*

<table>
<thead>
<tr>
<th>Imports to</th>
<th>North</th>
<th>West</th>
<th>North</th>
<th>Central</th>
<th>Other</th>
<th>Total</th>
<th>Share in total intra-African trade</th>
<th>Share of trade within sub-region in its total intra-trade</th>
</tr>
</thead>
<tbody>
<tr>
<td>I. North-west</td>
<td>1959</td>
<td>36.8</td>
<td>33.7</td>
<td>0.7</td>
<td>14.0</td>
<td>0.7</td>
<td>85.9</td>
<td>20</td>
</tr>
<tr>
<td>1961</td>
<td>30.2</td>
<td>31.6</td>
<td>3.2</td>
<td>8.8</td>
<td>1.3</td>
<td>75.1</td>
<td>16</td>
<td>40</td>
</tr>
<tr>
<td>II. West</td>
<td>1959</td>
<td>21.8</td>
<td>157.6</td>
<td>0.3</td>
<td>10.5</td>
<td>—</td>
<td>190.2</td>
<td>44</td>
</tr>
<tr>
<td>1961</td>
<td>25.2</td>
<td>182.0</td>
<td>1.8</td>
<td>9.3</td>
<td>0.5</td>
<td>218.8</td>
<td>46</td>
<td>83</td>
</tr>
<tr>
<td>III. North-east</td>
<td>1959</td>
<td>2.0</td>
<td>0.3</td>
<td>36.1</td>
<td>8.6</td>
<td>—</td>
<td>47.0</td>
<td>11</td>
</tr>
<tr>
<td>1961</td>
<td>2.0</td>
<td>0.4</td>
<td>34.4</td>
<td>11.1</td>
<td>0.1</td>
<td>48.0</td>
<td>10</td>
<td>72</td>
</tr>
<tr>
<td>IV. Central</td>
<td>1959</td>
<td>6.7</td>
<td>2.5</td>
<td>0.9</td>
<td>103.9</td>
<td>—</td>
<td>114.0</td>
<td>26</td>
</tr>
<tr>
<td>1961</td>
<td>5.5</td>
<td>4.0</td>
<td>1.0</td>
<td>118.9</td>
<td>0.3</td>
<td>129.7</td>
<td>28</td>
<td>92</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>1959</td>
<td>67.3</td>
<td>194.1</td>
<td>38.0</td>
<td>137.0</td>
<td>0.7</td>
<td>437.1</td>
<td>100</td>
</tr>
<tr>
<td>1961</td>
<td>62.9</td>
<td>218.0</td>
<td>40.4</td>
<td>148.1</td>
<td>2.2</td>
<td>471.6</td>
<td>100</td>
<td></td>
</tr>
</tbody>
</table>


* Excluding South Africa. Including estimated unrecorded intra-African trade and trade carried on within the three customs unions.

b Imports are valued c.i.f., except those of the Rhodesias and exports f.o.b. All recorded figures derived from import statistics.
C. CUSTOMS ARRANGEMENTS AND INTRA-REGIONAL TRADE 24

32. There are several multi and bilateral customs agreements and arrangements in operation in Africa. Within the Franc zone, the former two federations established by the French colonial administration were transformed into the West African Customs Union and the Equatorial Customs Union. 25 Later on the Entente was established within the former Union, also providing for a customs union.

33. In 1961, Senegal granted free access to its market to certain foodstuffs from the Republic of Guinea in order to facilitate traditional trade between the two countries. Mention should also be made of the tariff preferences within the Franc zone in Africa. Morocco, e.g., receives certain limited preferences in French-speaking West African countries and grants duty-free entry for certain goods from Algeria.

34. Among the English-speaking countries 26 there is the East African Common Market facilitated by the East African Common Service Organization embracing Kenya, Uganda and Tanganyika. The reciprocal trade between the UAR (Egypt) and the Sudan is facilitated by a trade and payment agreement concluded in 1959 and a customs agreement granting preferential duties on selected imports from the UAR into the Sudan in the same year.

35. Very little is known about the arrangements linking together the Portuguese possessions: Mozambique, Angola, Portuguese Guinea and adjoining islands. In any event they form a customs union among themselves. By virtue of an agreement concluded bilaterally with Portugal in 1959, Mozambique also received from the Rhodesias preferential treatment on imports of its products.

36. Customs agreements also exist between countries belonging to different language groups. In 1962, the Ghana-Upper Volta Customs Union was established and in 1963 the Ghana-Niger Customs Agreement was signed. According to an agreement between Ghana and Guinea in 1961, any local product or locally manufactured goods originating in either of the two countries is free from duty. A similar agreement was concluded between Ghana and Mali.

37. The above-mentioned customs agreements and preferential arrangements have led to different results as to the promotion of intra-African trade. In recent years a considerable growth of trade took place within the East African Common Market. 27 Table 5 reveals that while intra-trade in goods produced or manufactured domestically between Kenya, Uganda and Tanganyika in the period 1957-1962 increased by 41 per cent, total exports of the three countries rose only by 13 per cent and imports fell by 4 per cent. 28 This development was largely the result of price drops in staple exports contrasting with the price stability or even increases for products traded within the customs union.

38. As a result of this rapid expansion of inter-territorial trade within the East African Common Market during recent years its share in the total world export of the Common Market increased from 14.4 per cent in 1959 to 17.4 per cent in 1962. This is shown in table 6, which also reveals that the three member countries’ contribution to this achievement was highly unequal, Kenya having the lion’s share. In this phenomenon the uneven development within the Common Market is reflected.

39. In 1959, the unrecorded exchange of domestically produced goods among countries members of the West African Customs Union was estimated at $74 million 29 accounting approximately for 47 per cent of the total trade carried out within the sub-region.

40. Because of the lack of sufficiently accurate estimates of this trade before and after 1959, it was found impossible to assess its development over a period of time. 30 In 1959 (the sole year for which relatively comprehensive estimates of unrecorded trade were published), 31 Senegal, Mali and the Ivory Coast

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24 More information on existing customs agreements and arrangements can be found in the following documents: Problems of Customs Administration in West Africa (E/CN.14/STC/WPCA 1) and Progress Report on Regional Customs Survey (E/CN.14/STC/27).

25 See footnote 7.

26 In 1955, a preferential system was introduced between the Federation of Rhodesia and Nyasaland and the Union of South Africa, replacing the previous customs union between them.


28 The exchange of goods within the East Africa Common Market is actually greater, since about 22 per cent of imported goods from outside and consigned to one of the three countries is subsequently transferred to the other two.

29 See footnote to table 2.

30 In order to make it possible to compile tables 2, 3 and 4, figures concerning unrecorded trade within the Equatorial Customs and the central sub-region for 1959 were also applied to 1961.

31 See footnote 1 to paragraph 14.
were responsible for about 72 per cent ($55 million) of total exports within the Union, Senegal ranking first with a 40 per cent share.26 As regards imports, the Ivory Coast occupied the first place (26 per cent) followed by Senegal (20 per cent), Mauritania (16.5 per cent), Mali (15.5 per cent) and the Upper Volta (14 per cent).

41. There are apparent limitations to the full development of the West African Customs Union originating in the vague directions concerning the sharing of revenues which are embodied in the Agreement establishing the Union. The result has been that on the one hand fiscal duties and internal taxes have become gradually differentiated from one country to another and, on the other, free trade in domestic products is subjected to limitations. The effectiveness of the "Entente" created within the West African Union seems to have been limited also, owing to similar reasons.27

42. The Equatorial Customs Union seems to have operated more satisfactorily. The domestically-produced goods as well as the imported manufactures have been moving freely within the Union but in contrast to the East African Common Market without any statistical recording. The absence of any comprehensive study on this intra-customs union movement of goods prevents us from making estimates based on thorough research work as is the case for the West African Customs Union. In 1960, a study on the foreign trade of the Congo (Brazzaville) was published containing inter alia information on Congolese trade with other members of the Union.28 According to this study, the exports of locally-produced goods from the Congo (Brazzaville) to Gabon, the Central African Republic and Chad amounted to 20,000 metric tons, worth $7.8 million. The volume of imports was estimated at 3,900 metric tons, or a value of $2.8 million. The re-exports of the Congo to the three countries in the same year reached 27,000 metric tons, valued at $13.5 million. On the basis of these figures, which apparently represent the bulk of intra-Customs Union trade owing to the present concentration of the Union's industrial capacity in the Congo, the total value of this trade could be estimated at $10 million.29

43. There has been a significant increase in trade between West African countries which concluded bilateral customs agreements, particularly between Ghana and the Upper Volta, the exports from the former to the latter increasing from $1.0 million in 1959 to $5.3 million in 1961.30

44. In spite of customs preferences between Angola and Mozambique, the reciprocal trade between both territories is relatively small. Angola's exports to Mozambique amounting to $2.4 and 2.8 million in 1959 and 1961, respectively, exceeded twice its imports from there ($1.4 and 1.3 million in the same years, respectively).

III. COMMODITY TRADE

45. This chapter is based on information concerning 1960—the most recent year for which it has been possible to compile relatively comprehensive statistical data. It is assumed that the figures for this year are relatively typical of the existing intra-African trade.

A. COMMODITY COMPOSITION OF INTRA-AFRICAN TRADE

46. Although one can find some 60-80 commodity groups traded intra-regionally in Africa, 16 items account for 60 per cent of total value of intra-African trade. It may be added that this relatively large number of commodities is due to the large size and geographical diversity of Africa, but in the exchanges between any two given countries a few commodities only exhaust practically the whole range of trade.

47. Table 7 shows that the SITC31 sections 0 and 1 (food, live animals, beverages and tobacco) account for approximately 80 per cent of the total value of the above-mentioned 16 items ($219 out of 277 million) of which live animals and fish represent 22 per cent of the total intra-African trade.

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26 The Senegalese exports to other members of the West African Customs Union frequently consist of products with only a very small value added in Senegal (packing, bulk-breaking or superficial processing).
29 This figure was applied in compiling tables 2, 3 and 4.
30 The Ghanaian exports to Upper Volta consist almost entirely of imported goods and the increase referred to in this paragraph can be considered as a typical case of legalized smuggling.
31 Standard International Trade Classification.
Looking economy transformed by the former metropolitan powers into areas supplying raw materials on one side and sheltered markets for their manufactures on the other. It is not surprising, therefore, that in such a pattern of economy little scope is left for intra-regional trade.

B. Foodstuffs

50. This category of commodities ranks first in the composition of intra-African trade, accounting for 61.1 per cent of its total value (1960). Except sugar, beverages and tobacco, flour, wheat and, to some extent, citrus fruit, all the commodities of this category shown in Table 7 belong to traditional intra-regional trade which came into existence mainly as a result of a naturally developed division of labour between areas with complementary conditions of agricultural production. It may be added that its expansion in the twentieth century owes much to the rapid increase of cash crop production in many areas. This resulted in both the creation of high population concentrations in the forest belt and in a relative neglect of food production, and thus created a large market for imports from neighbouring countries.

51. Countries situated in the savannah area in the western and central parts of the continent became producers of livestock. The bulk of fresh-water fish is caught in the Niger River and its tributaries, along the shore of Lake Chad and the Rift Valley lakes, while the continental shelf along the western coast is the main supplier of sea fish. The tropical fruit...
and coffee production is concentrated in countries south of the Sahara. The temperate zone of North Africa and the highlands in Central Africa developed as producing areas of cereals, citrus fruit, vegetables, wine, dairy products etc. All these producing areas became significant foodstuffs suppliers within the sub-region in which they are situated, or within existing preferential groupings.

52. Table 9 shows the main foodstuff commodities traded intra-regionally between principal importing and exporting countries. In these trade flows, the tendency of intra-African trade to develop primarily within sub-regions or among countries of preferential groupings can be easily traced.

**Live animals**

53. Trade in live animals plays a most significant role in intra-African trade. It is actually the most important traditional trade flow which developed between territories situated in savannah areas and coastal countries located in the woodland and forest areas of West Africa. In addition, there is a traditional flow of live animals from the Sudan and Libya to the UAR (Egypt) amounting to approximately 100,000 sheep and goats and 10,000 bovine cattle (from Libya) and about 60,000 cattle (from the Sudan) annually.

54. The main livestock exporters in West Africa are Chad, the Niger, Mali, the Upper Volta, Guinea and Mauritania, exporting to the neighbouring coastal countries about half a million bovine cattle and more than a million sheep and goats per annum. The main importing countries are Nigeria, Ghana, the Ivory Coast, Senegal, Sierra Leone, Dahomey, Liberia and Togo.

55. Table 10 shows the value of trade in live animals among the West African countries in 1959, the most recent year for which the data are available. The value of total trade amounted to about $57 million

### Table 9

<table>
<thead>
<tr>
<th>Country</th>
<th>Total imports of SITC 0 + 1 from Africa (millions of US dollars)</th>
<th>Share of SITC 0 + 1 in total imports from Africa (percentages)</th>
<th>Main imported commodities and their origin</th>
</tr>
</thead>
<tbody>
<tr>
<td>Algeria</td>
<td>45.2</td>
<td>62.4</td>
<td>Coffee from Ivory Coast, fruit and vegetables from Morocco and Ivory Coast, wheat from Morocco and Tunisia, sugar from Madagascar, eggs and fish from Morocco, live animals from Morocco.</td>
</tr>
<tr>
<td>Tunisia</td>
<td>4.6</td>
<td>52.1</td>
<td>Fresh fruit from Ivory Coast, coffee from Congo (Leopoldville) and Ivory Coast, canned fish from Morocco and Algeria, vegetables from Morocco, tobacco from Rhodesia and Nyasaland.</td>
</tr>
<tr>
<td>Morocco</td>
<td>4.9</td>
<td>35.4</td>
<td>Coffee from Ivory Coast, Congo (Leopoldville), Angola, Kenya and Togo, sugar from Reunion, fresh fruit or simply preserved from Algeria, Ivory Coast, Guinea, etc., wheat from Tunisia.</td>
</tr>
<tr>
<td>Libya</td>
<td>1.3</td>
<td>26.2</td>
<td>Rice from UAR (Egypt), wheat from Tunisia, dehydrated vegetables from Morocco and Tunisia, coffee from Uganda.</td>
</tr>
<tr>
<td>UAR (Egypt)</td>
<td>7.0</td>
<td>55.0</td>
<td>Live animals from Sudan, Libya and Somalia, dried beans from Sudan and Ethiopia, coffee from Kenya, preserved vegetables from Morocco.</td>
</tr>
<tr>
<td>Sudan</td>
<td>8.2</td>
<td>41.4</td>
<td>Coffee and tea from Uganda and UAR (Egypt), rice from UAR (Egypt).</td>
</tr>
<tr>
<td>Ghana*</td>
<td>30.6</td>
<td>93.3</td>
<td>Live animals from Mali, Upper Volta, Niger and Nigeria, fresh fish from Mali, Ivory Coast, Dahomey, Niger, Upper Volta, canned fish from Madagascar, vegetables from Togo, tobacco from Rhodesia and Nyasaland.</td>
</tr>
<tr>
<td>Sierra Leone*</td>
<td>3.6</td>
<td>84.9</td>
<td>Live animals from Guinea—probably transit from Mali, raw tobacco from Rhodesia, canned fish from Morocco.</td>
</tr>
<tr>
<td>Nigeria*</td>
<td>16.4</td>
<td>80.6</td>
<td>Live animals from Niger and Chad, canned fish from Algeria, kola nuts from Ghana, raw tobacco from Rhodesia.</td>
</tr>
<tr>
<td>Congo (Brazza)</td>
<td>5.1</td>
<td>54.0</td>
<td>Fish from Mauritania, Angola, Senegal, meat from Chad, wine from Morocco and Algeria, sugar from Reunion, canned fish from Morocco, wheat flour from Senegal.</td>
</tr>
<tr>
<td>Cameroon</td>
<td>4.2</td>
<td>40.0</td>
<td>Wheat flour from Senegal, wine from Morocco, canned fish from Morocco, sugar from Morocco and Nigeria, manufactured tobacco from Algeria, tobacco from Rhodesia and Algeria, vegetables from Morocco.</td>
</tr>
<tr>
<td>Uganda</td>
<td>10.0</td>
<td>55.0</td>
<td>Wheat and wheat flour from Kenya, fresh milk and butter from Kenya, beer from Kenya, ghee from Tanganyika, tea and mate from Kenya.</td>
</tr>
</tbody>
</table>

* Including estimated unrecorded imports.
TABLE 9 (continued)

<table>
<thead>
<tr>
<th>Country</th>
<th>Total exports of SITC 0 + 1 to Africa (millions of US dollars)</th>
<th>Share of SITC 0 + 1 in total exports to Africa (percentages)</th>
<th>B. Exports Main exported commodities and their destination</th>
</tr>
</thead>
<tbody>
<tr>
<td>Morocco</td>
<td>32.7</td>
<td>72.3</td>
<td><strong>Fresh and dried vegetables</strong> to Algeria, Senegal, Sierra Leone, Ivory Coast, vegetables preserved to Algeria, <strong>wheat</strong> to Algeria, canned fish (sardines) to Ghana, Algeria, Equatorial Customs Union, Nigeria, Cameroon, Madagascar, Tunisia and Senegal, <strong>wine</strong> to Algeria, ECU, Cameroon, Senegal and Madagascar, <strong>sugar</strong> to Ivory Coast, Cameroon, Senegal, Guinea, <strong>cereals other than wheat</strong> to Senegal, Ivory Coast, Algeria, <strong>fresh fruit</strong> to Algeria, Senegal, Ivory Coast, etc., <strong>eggs</strong> to Algeria, Senegal and Ivory Coast, preserved vegetables to Algeria, Senegal etc., food preparations to UAR, live animals to Algeria and fresh fish to Algeria.</td>
</tr>
<tr>
<td>Tunisia</td>
<td>4.6</td>
<td>46.0</td>
<td><strong>Wheat</strong> to Morocco and Libya, canned fish to Algeria and the Reunion, live animals to Algeria, wine to Senegal, Cameroon, Madagascar, ECU, preserved fruit to Algeria, fresh fruit to Algeria.</td>
</tr>
<tr>
<td>Senegal, Mali*, Mauritania</td>
<td>25.5</td>
<td>70.3</td>
<td><strong>Live animals</strong> from Mali to Ghana and Ivory Coast, fresh or simply prepared fish from Mali to Ivory Coast, Upper Volta, Ghana, from Mauritania to the Congo (Brazzaville) and Gabon, wheat flour from Senegal to Cameroon, Equatorial Customs Union, Togo and Congo (Brazzaville).</td>
</tr>
<tr>
<td>Ivory Coast*</td>
<td>20.3</td>
<td>94.2</td>
<td><strong>Coffee</strong> to Algeria, Morocco, Tunisia, kola nuts to Mali, Senegal, Upper Volta and Niger, fish to Ghana, cacao to Algeria.</td>
</tr>
<tr>
<td>Niger*</td>
<td>13.6</td>
<td>91.4</td>
<td><strong>Live animals</strong> to Nigeria, Ghana and Dahomey, dry or salted fish to Ghana and Nigeria.</td>
</tr>
<tr>
<td>Upper Volta*</td>
<td>14.0</td>
<td>73.9</td>
<td><strong>Live animals</strong> to Ghana, Ivory Coast and Togo, vegetables to Ghana.</td>
</tr>
<tr>
<td>Chad*</td>
<td>10.1</td>
<td>74.2</td>
<td><strong>Live animals</strong> to Nigeria, Cameroon and Central African Republic, dry and salted fish to Nigeria, meat to Congo (Leopoldville) and Congo (Brazzaville).</td>
</tr>
<tr>
<td>Dahomey*</td>
<td>4.2</td>
<td>72.9</td>
<td><strong>Fish salted or dry</strong> to Ghana, Togo and Nigeria.</td>
</tr>
<tr>
<td>Madagascar</td>
<td>11.1</td>
<td>81.6</td>
<td><strong>Sugar</strong> to Algeria, Senegal, East Africa, Zanzibar, fresh meat to Algeria and Reunion, beans and peas to Reunion, Zanzibar and Pemba, Algeria, rice to Reunion, coffee to Reunion and Algeria, cattle to Reunion and Zanzibar, maize to Reunion.</td>
</tr>
<tr>
<td>Angola</td>
<td>6.7</td>
<td>73.6</td>
<td><strong>Fresh fish</strong> to Congo (Leo.), Mozambique, ECU, São Thome and Principe, fresh vegetables to Congo (Leo.), São Thome and Principe, Mozambique, Cape Verde Isl., Equatorial Customs Union, sugar to Cape Verde Isl., São Thome and Principe and Portuguese Guinea, canned fish to Mozambique and Congo (Leo.).</td>
</tr>
<tr>
<td>Uganda</td>
<td>15.3</td>
<td>63.0</td>
<td><strong>Coffee</strong> to Sudan, UAR, Zanzibar and Libya, tea to UAR, Somalia, fresh fish to Congo (Leo.), Rwanda and Burundi, sugar to Kenya, raw tobacco to Kenya, cigarettes to Tanganyika and Kenya.</td>
</tr>
<tr>
<td>Rhodesia and Nyasaland</td>
<td>6.7</td>
<td>53.0</td>
<td><strong>Milled cereals other than wheat</strong> to Bechuanaland, fresh or frozen meat to Congo (Leo.), tea and mate to Kenya, Somali Sudan, beans, peas, etc. to Kenya, Tanganyika, Mozambique and Congo (Leo.) preserved vegetables and fruit to Mozambique, Tanganyika, Congo (Leo.), wheat flour to Congo (Leo.), canned meat and preparations to Congo (Leo.), Mozambique, Bechuanaland and South West Africa, raw tobacco to Sierra Leone, Liberia, Port Guinea, Ghana, Congo (Brazza.), Kenya, UAR, Congo (Leo.), Cameroon, Mozambique.</td>
</tr>
<tr>
<td>Reunion</td>
<td>5.6</td>
<td>91.9</td>
<td><strong>Sugar</strong> to Morocco and ECU.</td>
</tr>
<tr>
<td>Kenya</td>
<td>23.0</td>
<td>51.0</td>
<td><strong>Wheat</strong> to Tanganyika and Uganda, wheat floor to Uganda and Tanganyika, cigarettes to Tanganyika and Uganda, beer to Tanganyika and Uganda, tea and mate to Tanganyika, Uganda, Sudan, UAR, Zanzibar and Somalia, butter to Uganda, Tanganyika, Congo (Leo.), Rwanda and Burundi, Zanzibar, Mozambique, Mauritius, Ethiopia, Rhodesia, live animals to Mauritius, Rwanda and Burundi, UAR and Zanzibar, vegetables to Mauritius, Zanzibar, Rhodesia, Mozambique, coffee to Somalia, Rhodesia, Morocco, UAR, meat to Tanganyika and Zanzibar, fresh milk to Uganda, bakery products to Uganda and Tanganyika.</td>
</tr>
</tbody>
</table>

* Including estimated unrecorded exports.
(including estimates of unrecorded flows), of which $23 million are accounted for by trade within the West African Customs Union.41

56. Table 11 reveals that in 1960 Morocco and Tunisia exported about $0.8 million worth of live animals to Algeria and about $2.8 million of such exports were made by Libya and the Sudan to the UAR (Egypt). There is also a considerable traditional movement of camels on hoof from the Sudan to the UAR, the total value of which has fluctuated from $3 to $6 million per annum in recent years. Some movement of camels also takes place from Mauritania to Algeria, which is only partially recorded in trade returns.

Meat

57. According to FAO calculations,42 the volume of total meat imports from all sources into Africa rose from 25,000 metric tons (carcass weight) in 1950 to 71,000 tons in 1958. The main African importers in 1958 were Algeria, Ghana, the UAR (Egypt), the Congo (Leopoldville) and the Rhodesias; their combined imports represented close to 90 per cent of total meat imports into Africa.

58. The central sub-region is the only one which, at present, enjoys meat surpluses, the Congo (Leopoldville) being practically the sole importer. The bulk of surpluses of Kenya, Tanzania, Southern Rhodesia, Bechuanaland and Madagascar is exported mainly to Europe and the remainder, about 4,000 metric tons, to the Congo (Leopoldville).

59. The meat exports of Ethiopia and Somalia are oriented chiefly outside Africa (Israel, Italy, Persian Gulf), but together with the Sudan they can be considered as potentially important intra-African meat suppliers, since they maintain the largest live animal population in Africa.43

60. The present level of intra-regional trade in meat is relatively low, representing only one-tenth of the total imports of this commodity. But there are good prospects for developing wider African Markets. There are several examples of new rapidly developing meat flows in West Africa confirming these prospects. The Fort Lamy slaughter houses, with a capacity of 6,000 metric tons output (1960), are supplying by air Brazzaville, Leopoldville, Douala, Pointe-Noire, Yaoundé and, recently, the Sahara, with increasing quantities of meat, reaching in 1959 about 3,810 tons (approximately $1 million f.o.b. Fort Lamy's abattoirs). Another significant airborne movement of meat is that from Niger to the Ivory Coast, Dahomey and Togo. In 1960, the meat shipments from Niger to these countries amounted to $102,000, $49,000 and $48,000 respectively, and from Mali to the Ivory Coast to $98,000.

Fish and fish preparations

61. In the world’s fish catch, Africa ranks last among the continents, accounting for 4.5 per cent

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41 If the estimated number of livestock traded is rough, the estimated values are even more so because there is absolutely no firm basis for the valuation of the livestock; there are also considerable conceptual difficulties, the discrepancy between the highly hypothetical f.o.b. and c.i.f. prices being very wide.


43 According to a very rough estimation, the number of live animals in these three countries reached nearly 30 million cattle and 50 million sheep and goats. The total livestock population of Ethiopia alone in 1959 was about 21 million bovine cattle and 33 million sheep and goats (FAO, Livestock and Meat Marketing in Africa, 1960).
of the world catch, i.e., 1,812,700 metric tons in 1961 (South Africa excluded). Table 12, containing detailed 1961 production figures, shows that the central sub-regions share in the total African catch is about 50 per cent amounting to 916,000 metric tons, South West Africa, Angola and the Congo (Leopoldville) being the chief producers. Second in rank is West Africa with a total catch of 507,000 tons of sea and fresh water fish, Senegal ranking first among the countries in this sub-region. Morocco and the UAR (Egypt) are the chief fish producing countries in the north-west and north-east sub-regions. 44

62. The main trade flows of fresh and simply prepared fish are concentrated in West Africa (see table 13) and the intra-regional trade in canned fish is at present practically identical with exports of canned sardines from Morocco, Algeria and Tunisia to West African countries, Morocco having the largest share (75 per cent) (see table 14).

63. Table 13 shows export and import figures of both recorded and estimated unrecorded West African trade in fresh and simply prepared fish in 1960 and 1961. Similar to the livestock trade, all the figures are on the low side since the West African trade in inland water fish belongs also to the old, traditional, mostly unrecorded, trade of this sub-region.

64. It should be mentioned that the two main exporting countries—Mali and Dahomey—differ as to the sort of fish they are selling: Mali’s exports consist of fish caught mostly in the shallow waters of the Niger River in the Mopti region. On the other hand, Dahomey exports only sea fish. The same difference applies also to the Niger on one side and Mauritania on the other, the former exporting fresh water fish caught in the Niger River, the latter exporting fish caught mainly by sea fisheries.

65. The main role in intra-West African imports is played by Ghana, importing fresh water fish from Mali and the Niger and sea fish from Dahomey and the Ivory Coast. The volume of its imports represented nearly 50 per cent of the total intra-African fish imports in 1959. Mali and the Niger are also the main suppliers of fish to the Upper Volta, the second main fish importing country from the sub-region. The Ivory Coast imports fresh water fish from Mali and sells sea fish to Ghana, having a passive balance of total fish trade.

66. Nigeria meets its fish requirements by huge imports from outside the continent, mostly from Norway. As to the $761,000 fish imports of Nigeria from West African countries (see table 13), it should be borne in mind that this figure represents recorded trade only. The actual unrecorded imports of Nigeria, particularly from the Niger and Chad, must be much higher and possibly as high as the value of Upper Volta’s imports ($3.3 million).

67. The relatively low figures concerning legal fish trade within the central sub-region as well as its fish imports from outside the continent (see table 15) lead to the assumption that the countries of this part of Africa [with the exception of the Congo (Leopoldville)] are to a great extent self-sufficient in fish supply, in spite of the quite negligible catches of sea fish. 45

<table>
<thead>
<tr>
<th>Region</th>
<th>Total catch in weight</th>
<th>Fish products</th>
</tr>
</thead>
<tbody>
<tr>
<td>South West Africa</td>
<td>353.0</td>
<td>155.8°</td>
</tr>
<tr>
<td>Angola</td>
<td>241.6</td>
<td>61.3°</td>
</tr>
<tr>
<td>Morocco</td>
<td>164.9</td>
<td>44.0°</td>
</tr>
<tr>
<td>Congo (Leopoldville)</td>
<td>153.4°</td>
<td></td>
</tr>
<tr>
<td>Senegal</td>
<td>96.3°</td>
<td></td>
</tr>
<tr>
<td>UAR (Egypt)</td>
<td>92.0</td>
<td></td>
</tr>
<tr>
<td>Chad</td>
<td>65.0°</td>
<td></td>
</tr>
<tr>
<td>Uganda</td>
<td>61.0</td>
<td></td>
</tr>
<tr>
<td>Tanganika</td>
<td>60.7</td>
<td></td>
</tr>
<tr>
<td>Nigeria</td>
<td>58.0°</td>
<td></td>
</tr>
<tr>
<td>Cameroon</td>
<td>49.0°</td>
<td></td>
</tr>
<tr>
<td>Sierra Leone</td>
<td>44.8</td>
<td></td>
</tr>
<tr>
<td>Ivory Coast</td>
<td>41.5</td>
<td></td>
</tr>
<tr>
<td>Dahomey</td>
<td>38.0</td>
<td></td>
</tr>
<tr>
<td>Ghana</td>
<td>34.5°</td>
<td></td>
</tr>
<tr>
<td>Mali</td>
<td>28.0°</td>
<td></td>
</tr>
<tr>
<td>Algeria</td>
<td>25.6°</td>
<td></td>
</tr>
<tr>
<td>Sudan</td>
<td>17.3</td>
<td></td>
</tr>
<tr>
<td>Ethiopia</td>
<td>17.2</td>
<td></td>
</tr>
<tr>
<td>Somalia</td>
<td>17.1</td>
<td></td>
</tr>
<tr>
<td>Guinea</td>
<td>16.0°</td>
<td></td>
</tr>
<tr>
<td>Tunisia</td>
<td>15.2</td>
<td></td>
</tr>
<tr>
<td>Kenya</td>
<td>12.6°</td>
<td></td>
</tr>
<tr>
<td>Zanzibar and Pemba</td>
<td>10.0</td>
<td></td>
</tr>
<tr>
<td>Rwanda and Burundi</td>
<td>9.2°</td>
<td></td>
</tr>
<tr>
<td>Fed. of Rhodesia and Nyasaland</td>
<td>8.3</td>
<td></td>
</tr>
<tr>
<td>Mauritania</td>
<td>7.1</td>
<td></td>
</tr>
<tr>
<td>Niger</td>
<td>4.2</td>
<td></td>
</tr>
<tr>
<td>Madagascar</td>
<td>4.0</td>
<td></td>
</tr>
<tr>
<td>Upper Volta</td>
<td>3.5</td>
<td></td>
</tr>
<tr>
<td>Togo</td>
<td>3.4°</td>
<td></td>
</tr>
<tr>
<td>Mozambique</td>
<td>3.2</td>
<td></td>
</tr>
<tr>
<td>Liberia</td>
<td>1.2</td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td>56.0</td>
<td></td>
</tr>
</tbody>
</table>

Total catch in Africa: 1,812.7

*Fish meal, canned sardines, tuna, fish body oil, fertilizers etc.
° South Africa excluded.
1956.
1957.
1958.
1959.
1960.
1961.

Estimates based on export figures concerning the Mopti region only.
INTRA-AFRICAN TRADE

TABLE 13
Main imports and exports of fish, fresh or simply prepared (SITC 031) between West African countries 1960
(In thousands of US dollars)

<table>
<thead>
<tr>
<th>Imports to</th>
<th>Chad</th>
<th>Mauritania</th>
<th>Senegal</th>
<th>Mali</th>
<th>Upper Volta</th>
<th>Niger</th>
<th>Ivory Coast</th>
<th>Togo</th>
<th>Dahomey</th>
<th>Cameroon</th>
<th>Total imports from West Africa</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ghana</td>
<td></td>
<td>—</td>
<td>25</td>
<td>2 000*</td>
<td>475</td>
<td>1 219*</td>
<td>1 658</td>
<td>85</td>
<td>3 280*</td>
<td>18</td>
<td>8 760</td>
</tr>
<tr>
<td>Nigeria</td>
<td></td>
<td>—</td>
<td></td>
<td></td>
<td>—</td>
<td>345</td>
<td>—</td>
<td>—</td>
<td>79</td>
<td>183</td>
<td>761</td>
</tr>
<tr>
<td>Upper Volta</td>
<td></td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>2 032*</td>
<td>1 220*</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>3 252</td>
</tr>
<tr>
<td>Senegal</td>
<td></td>
<td>1 219*</td>
<td>16</td>
<td></td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>1 219</td>
<td>—</td>
<td>2 439</td>
</tr>
<tr>
<td>Ivory Coast</td>
<td></td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>2 439*</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>2 439</td>
</tr>
<tr>
<td>Gabon</td>
<td></td>
<td>252</td>
<td>4</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>6 262</td>
</tr>
<tr>
<td>Congo (Brazzaville)</td>
<td>—</td>
<td>796</td>
<td>141</td>
<td>—</td>
<td>9</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>8</td>
<td>954</td>
</tr>
<tr>
<td>Togo</td>
<td></td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>775*</td>
<td>775</td>
<td>18 422</td>
</tr>
</tbody>
</table>

Total exports to West Africa 154 2 267 170 6 471 475 2 793 1 658 85 4 134 215 18 422

Source: National publications.


68. The main flow of fresh or simply prepared fish within this region in 1960 took place from Angola and Uganda to the Congo (Leopoldville) and from Tanganyika to the Rhodesias. Considerable quantities of fresh water fish traditionally moving from Rwanda, Burundi and Uganda to the Congo (Leopoldville) are not recorded.46

69. It should be noted that the figures included in tables 13, 14 and particularly 15 are on the low side since they cover only a part of the unrecorded intra-African trade in fresh and prepared fish.

Cereals

70. Africa imports annually close to two million metric tons of wheat worth approximately $160 million.47 As regards intra-African trade, there are Morocco and Tunisia are the sole significant exporters of wheat (hard quality) to outside the continent. Their sales vary considerably according to the harvest results (e.g., 150,000 metric tons in 1960, 40,000 metric tons in 1961). Both countries are at the same time importers of soft wheat.

TABLE 14
Africa: Intra-regional trade in fish, canned or otherwise prepared (SITC-032), 1960
(In thousands of US dollars)

<table>
<thead>
<tr>
<th>Imported into</th>
<th>Senegal</th>
<th>Morocco</th>
<th>Algeria</th>
<th>Tunisia</th>
<th>Other Africa</th>
<th>Total Africa excl. S.A.</th>
<th>Outside Africa*</th>
<th>World</th>
</tr>
</thead>
<tbody>
<tr>
<td>Senegal</td>
<td>—</td>
<td>209</td>
<td>37</td>
<td>—</td>
<td>—</td>
<td>246</td>
<td>115</td>
<td>361</td>
</tr>
<tr>
<td>Guinea</td>
<td>—</td>
<td>179</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>179</td>
<td>179</td>
<td>—</td>
</tr>
<tr>
<td>Ivory Coast</td>
<td>—</td>
<td>131</td>
<td>—</td>
<td>26</td>
<td>131</td>
<td>151</td>
<td>896</td>
<td>1 047</td>
</tr>
<tr>
<td>Ghana</td>
<td>—</td>
<td>967</td>
<td>—</td>
<td>—</td>
<td>774</td>
<td>1 741</td>
<td>3 776</td>
<td>5 517</td>
</tr>
<tr>
<td>Togo</td>
<td>—</td>
<td>58</td>
<td>—</td>
<td>53</td>
<td>—</td>
<td>111</td>
<td>15</td>
<td>126</td>
</tr>
<tr>
<td>Dahomey</td>
<td>—</td>
<td>35</td>
<td>—</td>
<td>—</td>
<td>35</td>
<td>171</td>
<td>44</td>
<td>—</td>
</tr>
<tr>
<td>Liberia</td>
<td>—</td>
<td>43</td>
<td>43</td>
<td>43</td>
<td>—</td>
<td>815</td>
<td>—</td>
<td>2 198</td>
</tr>
<tr>
<td>Nigeria</td>
<td>—</td>
<td>384</td>
<td>431</td>
<td>—</td>
<td>436</td>
<td>815</td>
<td>1 383</td>
<td>3 198</td>
</tr>
<tr>
<td>Cameroon</td>
<td>—</td>
<td>448</td>
<td>—</td>
<td>28</td>
<td>476</td>
<td>254</td>
<td>730</td>
<td>—</td>
</tr>
<tr>
<td>Congo (Brazzaville)</td>
<td>—</td>
<td>247</td>
<td>—</td>
<td>—</td>
<td>247</td>
<td>171</td>
<td>418</td>
<td>—</td>
</tr>
<tr>
<td>Gabon</td>
<td>—</td>
<td>117</td>
<td>—</td>
<td>—</td>
<td>117</td>
<td>111</td>
<td>228</td>
<td>—</td>
</tr>
<tr>
<td>Central African Rep.</td>
<td>—</td>
<td>60</td>
<td>—</td>
<td>—</td>
<td>60</td>
<td>77</td>
<td>137</td>
<td>—</td>
</tr>
<tr>
<td>Chad</td>
<td>—</td>
<td>30</td>
<td>—</td>
<td>—</td>
<td>30</td>
<td>41</td>
<td>71</td>
<td>—</td>
</tr>
<tr>
<td>Algeria</td>
<td>32</td>
<td>498</td>
<td>—</td>
<td>459</td>
<td>989</td>
<td>2 911</td>
<td>3 900</td>
<td>—</td>
</tr>
<tr>
<td>Tunisia</td>
<td>1</td>
<td>296</td>
<td>29</td>
<td>—</td>
<td>—</td>
<td>326</td>
<td>25</td>
<td>351</td>
</tr>
<tr>
<td>UAR (Egypt)*</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>16</td>
<td>318</td>
<td>115</td>
<td>433</td>
<td>—</td>
</tr>
<tr>
<td>Madagascar</td>
<td>—</td>
<td>302</td>
<td>—</td>
<td>—</td>
<td>302</td>
<td>115</td>
<td>433</td>
<td>—</td>
</tr>
<tr>
<td>Rhodesia and Nyasaland</td>
<td>—</td>
<td>9</td>
<td>—</td>
<td>14</td>
<td>23</td>
<td>974</td>
<td>997</td>
<td>—</td>
</tr>
</tbody>
</table>

Total listed countries 33 4 095 497 459 954 6 038 13 178 19 216

only two significant flows of this commodity. The first one from Morocco and Tunisia into Algeria (4.8 and 2.4 million respectively in 1960); the second one from Kenya into Tanganyika and Uganda (81.4 and 0.8 million, respectively in 1960).

71. The intra-regional trade in wheat flour consists also of two main flows: from Senegal to practically all the French-speaking West African countries (82 million, including re-exports, in 1960) and from Kenya to Uganda and Tanganyika (81.4 and 0.8 million in 1960, respectively). It is likely that the Senegalese exports of wheat flour based on imported wheat milled in Dakar will decrease with the recent commissioning of a large flour mill in Abidjan, Ivory Coast.

72. Intra-African trade in rice in 1960 amounted to about $3 million, though the total African imports of rice from the world in that year reached $50 million. The UAR (Egypt) sent 0.5 million worth of rice shipments to Libya and 0.2 million to the Sudan. Among other significant intra-regional rice movements in 1960 mention must be made of Niger's imports worth 0.5 million from Nigeria, shipments valued at 80.8 million from Madagascar to the Comoro Islands and intra-East African trade in rice worth 80.4 million. The relatively small shipments of rice from Mali to Senegal are likely to expand rapidly if Mali can increase production at an acceptable price.

73. Contrary to wheat and rice, Africa as a whole is self sufficient in maize, several countries exporting considerable quantities of this commodity (Angola 117,000, Morocco 105,000, Tanganyika 45,000 and Kenya 10,000 metric tons in 1960). The bulk of intra-African trade in maize worth about $3.5 million is comprised of shipments from Madagascar to the Reunion from Togo to Ghana and from Morocco to Senegal. In 1961, large shipments of maize were exported from the Rhodesias to Kenya and Tanganyika (about $4 million), owing to a harvest failure in the latter two countries.

**Fruit and vegetables**

74. Intra-African trade in fruits and vegetables, though not very large, is spread all over the continent. It is by nature a luxury trade catering for a small clientele of expatriates and Africans with a European pattern of consumption. With the exception of kola nuts, which are discussed separately, the values of intra-African imports and exports of fresh and dried fruits of individual African countries do not generally exceed $50-60,000 annually. Naturally, there are exceptions to this rule, such as the exchange of fruits between North and West Africa which has developed on the basis of a certain specialization in production, determined by geographical conditions. Morocco as well as Algeria export predominantly citrus fruits (oranges and tangerines), dried raisins, figs and dates to the Ivory Coast, Senegal, Guinea, Chad, Gabon, the Congo (Brazzaville) and the Central African Republic, and import tropical fruits, mostly bananas and pineapples from the Ivory Coast and Guinea. There is also a well developed traditional trade in fruits among North African countries; here, Morocco is the main supplier of citrus fruits and water-melons to Algeria, receiving from the latter mainly dried dates and figs.

75. Because of the nature of this trade the future of fresh and dried fruit trade in Africa is largely determined by income differentials and has already declined to some extent with the departure of expatriates.

76. Trade in canned and otherwise prepared and preserved fruits as compared with the fresh variety is negligible ($0.7 million in 1960). Only Algeria, Morocco and Tunisia and, in West Africa, the Ivory Coast and Guinea, are significant exporters of preserved fruit to an African destination, the bulk of this trade being concentrated between themselves. Outside this group, only Senegal is importing preserved fruits from Algeria and Morocco. In 1960, the total intra-African trade in fruits, fresh and dried, amounted to about $12 million, including kola-nuts, while the imports of all kinds of fruit from outside are valued at about $30 million.48

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48 Africa is also a large exporter of fruits (oranges and tangerines from Algeria, Morocco and Tunisia, bananas from Ivory Coast, Nigeria, Guinea, Somalia, Cameroon, Congo (Leopoldville), dates from Algeria, etc.)
In 1960, 600,000 metric tons were exported outside, 160,000 tons worth $20 million sold within the continent and about 1,300,000 tons imported from outside.51

81. In the same year, Uganda's exports to Kenya amounted to $4 million of raw sugar. The UAR (Egypt) exported sugar to the Sudan ($2.9 million), Madagascar to Algeria (2.5), Senegal (0.8) and Kenya (0.6); Reunion to Morocco (0.5) and the Congo (Brazzaville) (0.5); Angola and Cap Verde Islands (0.5) and Mauritius to the Rhodesias. Morocco imported considerable quantities of raw sugar from outside and exported refined sugar to the Ivory Coast (1.3) and Cameroon (0.4).

Tobacco and cigarettes

82. Out of the total intra-African trade in tobacco and cigarettes, amounting to $20 million, almost $12 million belong to commercial exchanges among countries of the East African Common Market. In 1963, Kenya purchased in Uganda and Tanganyika $2.5 million of raw tobacco, and its cigarettes sales to both countries reached $5.4 million. In the same year, Uganda's exports of cigarettes to Tanganyika amounted to $1.8 million and to Kenya $0.9 million.

83. In the same year, the Federation of Rhodesia and Nyasaland exported raw tobacco almost to all African countries in the total value of $3.7 million, its main clients being Sierra Leone, Liberia, Portuguese Guinea, Ghana, Kenya, the Congo (Brazzaville) and the UAR (Egypt).

84. After Kenya and Uganda, Algeria is the third principal producer of cigarettes, and at the same time the most important African supplier of manufactured tobacco to West Africa.52 In 1960, its sales amounted to $2.8 million, the Ivory Coast, Dahomey, Togo, Guinea and Cameroon being the principal clients.

85. Because of the recent tendency in a number of countries to set up cigarette factories within the framework of their import substitution programmes, it is likely that trade in cigarettes will absolutely and relatively decline while that in tobacco may expand significantly.

C. Crude materials

86. Intra-African trade in crude material, which accounts for 12 per cent ($55 million) of the total intra-regional trade, shows a marked concentration in a small group of countries. Three of them (Algeria, the Federation of Rhodesia and Nyasaland and Morocco) absorb nearly 50 per cent and seven countries (including Senegal, UAR (Egypt), Ivory Coast and Upper Volta) account for 70 per cent of the total intra-African imports.

87. Six countries (Senegal, Tanganyika, Nigeria, Uganda, Ivory Coast and Sudan) are responsible for

---

TABLE 16
Trade in kola-nuts in West Africa in 1959
(In thousands of US dollars)

<table>
<thead>
<tr>
<th>Imports to</th>
<th>Ivory Coast</th>
<th>Ghana</th>
<th>Sierra Leone</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Senegal</td>
<td>3,000a</td>
<td>—</td>
<td>—</td>
<td>3,000</td>
</tr>
<tr>
<td>Gambia</td>
<td>—</td>
<td>—</td>
<td>278c</td>
<td>278</td>
</tr>
<tr>
<td>Mali</td>
<td>1,800c</td>
<td>—</td>
<td>—</td>
<td>1,800</td>
</tr>
<tr>
<td>Upper Volta</td>
<td>450</td>
<td>1,500b</td>
<td>—</td>
<td>1,950</td>
</tr>
<tr>
<td>Dahomey</td>
<td>—</td>
<td>36e</td>
<td>—</td>
<td>36</td>
</tr>
<tr>
<td>Niger</td>
<td>120</td>
<td>—</td>
<td>—</td>
<td>120</td>
</tr>
<tr>
<td>Togo</td>
<td>—</td>
<td>100e</td>
<td>—</td>
<td>100</td>
</tr>
<tr>
<td>Guinea</td>
<td>—</td>
<td>—</td>
<td>132c</td>
<td>132</td>
</tr>
<tr>
<td>Nigeria</td>
<td>—</td>
<td>1,700b</td>
<td>—</td>
<td>1,700</td>
</tr>
<tr>
<td>Total listed countries</td>
<td>4,750</td>
<td>3,336</td>
<td>410</td>
<td>8,496</td>
</tr>
</tbody>
</table>


* Coastal shipments in 1961 as estimated in a special study on unrecorded trade prepared in Dakar. (See Bulletin de l'Afrique noire, No. 268.)
* In 1960, according to Ghana's official statistics.
* According to Sierra Leone's Trade Report for the Year 1960.

77. A special traditional trade in kola-nuts developed in West Africa. As in other cases of West African traditional trade, most of the movements of this commodity are not recorded. Table 16 gives figures of trade in kola-nuts which should be regarded as very rough estimates since they suffer from serious problems of valuation in addition to the difficulties in estimating the quantities traded.

78. Morocco is responsible for more than half of the total intra-African exports of fresh or dried vegetables and nearly a half of preserved vegetables in 1960, of which approximately 80 per cent went to Algeria. In 1960, China started recording imports of large quantities of preserved vegetables from Togo.49 The value of these imports amounted in 1960 to $1.0 million and in 1962 to $0.9 million. Worth mentioning is also the West African traditional trade in onions, the main exporters being the Niger and Nigeria and importers Ghana, Dahomey, Togo, etc. Export of pulses from the Sudan into the UAR (Egypt) during 1960 amounted to about $1 million.

79. There is also a significant trade in fresh and preserved vegetables between countries of the Eastern African Common Market, amounting to $1.8 million in 1960. The bulk of this trade consisted of dry beans, peas, onions and potatoes, Tanganyika being responsible for 60 per cent of total shipments (beans and onions to Kenya).

Sugar

80. In 1960-1961, Africa produced about 1.5 million metric tons of raw sugar, the main producing countries being the UAR (Egypt), Mauritius, Reunion, Mozambique, Uganda, Madagascar and Angola.50

49 Probably improvement in statistical recording of traditional imports of gari made of cassava flour.
50 FAO, Production Yearbook 1962. In 1963, the Rhodesias emerged as producer of sugar. Of the total annual 180,000 tons output, only 75,000 tons are consumed domestically and 5,000 tons sold to Nyasaland (Source: The Commonwealth Producer).
51 All figures including South Africa.
52 There are also significant shipments of cigarettes from the Congo (Brazzaville) to other member countries of the Equatorial Customs Union amounting approximately to $2 million annually.
53 Including vegetable and animal oils and fats (SITC 2 + 4).
about 47 per cent ($26 million) of the total intra-
regional exports of crude materials (including vegetable oils).

88. Five groups of commodities (vegetable oils, oil seeds and kernels, wood, textile fibres and hides and skins) account for 55 per cent ($30 million) of the total intra-African trade in commodities belonging to this category of goods.

89. Vegetable oils rank first among these groups, their value reaching approximately $1.4 million in 1960, followed by oil seeds and kernels ($5 million).

90. Wood round or simply shaped (as well as plywood and veneer), is an important export commodity of West African coastal countries, especially the Ivory Coast, Ghana, the Congo (Brazzaville), Cameroon and Gabon; their most important clients being Algeria, Morocco, the Congo (Leopoldville) and the UAR (Egypt). In 1959, the total value of these exports was about $5 million, the sale of the Ivory Coast alone reaching $3 million.

91. Among textile fibres, cotton is by far the most significant commodity traded intra-regionally. The Sudan, the UAR (Egypt), Tanganyika, Uganda, the Central African Republic, Chad and Nigeria exported cotton in 1960 to Ethiopia, Senegal, Angola, Morocco and Libya, worth approximately $1.6 million. In the same year, Angola was the main supplier of sisal to Senegal, Morocco and the Ivory Coast.

92. The bulk of intra-regional trade operations in hides and skins consists of Sudan’s sales to the UAR (Egypt) ($1.3 million in 1960), $0.8 worth of shipments from Senegal to the Ivory Coast and Nigeria’s purchases in Chad amounting to $0.2 million in the same year. The value of total trade in hides and skins can be estimated at $3 million annually.

93. It should be noted that the implementation of import substitution programmes may result in an increased demand for raw materials in intra-African trade, particularly for textile fibres, hides and skins.

D. MANUFACTURES

94. Intra-African trade in manufactures, machinery and chemicals is essential a one-sided affair, since there are only a few African countries which can be considered as significant exporters of domestically produced goods of this category—namely, Algeria, Morocco, the UAR (Egypt), the Rhodesias and Kenya. In this connexion it is worth mentioning that the bulk of sales of manufactures and machinery within the western sub-region actually consists of re-export of goods imported from outside the continent.\(^{56-60}\)

95. In 1960, nearly half of the trade transactions in these commodities took place between Algeria, Morocco, Tunisia, the UAR (Egypt), the Rhodesias, Kenya, Senegal and Ghana as the chief exporters and the Sudan, Algeria, the Congo (Leopoldville), Uganda, Tanganyika, Togo as the principal importers. The value of this trade amounted to approximately $50 million, that is, close to one half of the total intra-African trade of this category.

96. One of the features of this trade is that with the exception of countries mentioned in paragraph 95, the imports into almost all African countries consist of a very limited number of manufactured goods from a few sources. The following are several examples, illustrating the situation:

- Tunisia imports 85 per cent of manufactures, machinery and chemicals from Algeria, the principal items being paper and paper manufactures, cosmetics and machinery;
- Libya’s purchases of textile fabrics from the UAR (Egypt) accounted for 90 per cent of its imports of manufactures originating in Africa in 1960;
- Textile articles imported by the Sudan from the UAR (Egypt) constituted 99 per cent of Sudanese imports of manufactures from Africa in 1961;
- Ghana’s sales of cotton fabrics (re-exports) and tools to the Ivory Coast accounted for 55 per cent of the latter’s imports from Ghana in 1960 ($560,000 or $1,047,000);
- The Upper Volta receives 90 per cent of its manufactures from Ghana (mostly re-exports);
- Togo’s purchases of cotton fabrics from Ghana (re-exports) represent 58 per cent of the Togolese imports from the latter country and 36 per cent of Togo’s total imports from Africa (including all groups of commodities).

97. Seven commodities or groups of commodities absorb more than 50 per cent ($57 million) of the total value of intra-African trade in manufactures, machinery and chemicals:

<table>
<thead>
<tr>
<th>In millions of US dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>Textile fabrics</td>
</tr>
<tr>
<td>Chemicals</td>
</tr>
<tr>
<td>Veneers and plywood</td>
</tr>
<tr>
<td>Cement</td>
</tr>
<tr>
<td>Clothing</td>
</tr>
<tr>
<td>Footwear</td>
</tr>
<tr>
<td>Non-ferrous metals</td>
</tr>
</tbody>
</table>

* Including re-exports worth approximately $4 million. See footnote 58.
* The main items being alumina (exported from the Republic of Ghana to Cameroon), perfumery and cosmetics, medical and pharmaceutical products.

\(^{56-60}\) It was found impossible to collect any data concerning these re-exports since they are not treated separately in the statistical returns of the French-speaking countries. Re-exports mentioned in this paper as a part of intra-African trade of French-speaking countries should therefore be treated as rough estimates.
98. In this connection mention must be made that the intra-African trade in machinery is quite negligible, accounting only for about one per cent of the total intra-African trade and consisting mainly of sales of road motor vehicles, boats and other equipment imported from outside the continent. Worth mentioning are shipments of apparatus for the distribution of electricity and telecommunications equipment produced and exported by Algeria and Morocco, and exports of agricultural machinery and radio sets and parts from the Rhodesias.

**Textiles**

99. Of 3,800 million yards (approximately 410,000 metric tons) of textiles (cotton, wool, rayon and synthetics) purchased in Africa in 1960, about 36 per cent, i.e., 230,000 metric tons, worth about $630 million, was imported in 1960. The rest, approximately 180,000 tons, was produced in Africa.61 Table 17 shows the total output of fibres consumption in textile mills of the main producing African countries in 1960. It reveals that the textile production is very unevenly distributed among African countries: about 66 per cent of the African textiles production, based on cotton, is concentrated in the UAR (Egypt). The table includes only countries with a larger capacity than 1,000 metric tons of textile manufactures. Small plants frequently not even using their full capacity exist in a number of countries and further expansion is foreseen everywhere.

100. Of the total imports of textile fabrics into Africa in 1960 only about 3 per cent were of African origin ($21.1 million out of $622 million).62 Even this low level of intra-African imports must be further reduced by at least $4 million which is the approximate value of re-exports of textiles in West Africa.63

101. As in the case of other main commodities exchanged among African countries, the textile manufactures (fabrics piece goods and clothing) were mostly traded within sub-regions: the figures on intra-African trade in fabrics and clothing included in tables 18 and 19, though not complete, show clearly that intra-African trade tends to develop on sub-regional basis. The bulk of imports of fabrics and clothing into the north-west sub-region originated in the same sub-region and the same phenomenon is observed in the north-eastern sub-region. For example, Algeria's imports of clothing from Morocco and Tunisia reached nearly one million dollars and that of fabrics $350,000. Sudan imported fabrics from the UAR (Egypt) in the value of $7,831,000, and Libya's imports were valued at $256,000. The geographical proximity was certainly one of the significant factors in the realization of considerable purchases of textile manufactures made by member countries of the Equatorial Customs Union in the Congo (Leopoldville) amounting to $634,000 in 1960.

102. The total bill for all fabrics and clothing imported into Africa, amounting to approximately $900 million annually, makes the textile manufactures one of the most significant import replacing commodity groups. The advantage of textile manufacturing in Africa seems to be quite clearly understood,64 and has been amply reflected in the various expansion programmes in the textile industry which are at present under way in several African countries.

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Table 17

**Production of principal textile fibres and consumption of textile mills in Africa, 1960**

*In thousands of metric tons*

<table>
<thead>
<tr>
<th>Fibre Type</th>
<th>Production 1960-1961</th>
<th>Mills consumption</th>
<th>Production</th>
<th>Mills consumption</th>
<th>Production</th>
<th>Mills consumption</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cotton</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>UAR (Egypt)</td>
<td>478</td>
<td>115.1</td>
<td>1.6</td>
<td>2.0</td>
<td>11.23</td>
<td></td>
</tr>
<tr>
<td>Congo (Leopoldville)</td>
<td>46</td>
<td>10.0</td>
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<td></td>
</tr>
<tr>
<td>Ethiopia</td>
<td>5</td>
<td>5.4</td>
<td>---</td>
<td>---</td>
<td>0.9</td>
<td></td>
</tr>
<tr>
<td>Nigeria</td>
<td>51</td>
<td>5.4</td>
<td>---</td>
<td>---</td>
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<td></td>
</tr>
<tr>
<td>Morocco</td>
<td>2</td>
<td>2.4</td>
<td>6.7</td>
<td>4.3</td>
<td>---</td>
<td></td>
</tr>
<tr>
<td>Algeria</td>
<td>1</td>
<td>0.3</td>
<td>2.9</td>
<td>3.6</td>
<td>---</td>
<td></td>
</tr>
<tr>
<td>Rhodesia and Nyasaland</td>
<td>4</td>
<td>3.8</td>
<td>---</td>
<td>---</td>
<td>---</td>
<td></td>
</tr>
<tr>
<td>Uganda</td>
<td>67</td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Tanzania</td>
<td>34</td>
<td>3.6</td>
<td>0.5</td>
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</tr>
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<td>Kenya</td>
<td>3</td>
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</tr>
<tr>
<td>Ivory Coast</td>
<td>2</td>
<td>2.5</td>
<td>---</td>
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<td></td>
</tr>
<tr>
<td>Senegal, Mali, Mauritania</td>
<td>4</td>
<td>2.1</td>
<td>0.1</td>
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</tr>
<tr>
<td>Tunisia</td>
<td></td>
<td></td>
<td>1.4</td>
<td>1.4</td>
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</tr>
<tr>
<td>Angola</td>
<td>5</td>
<td>1.1</td>
<td>---</td>
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</tr>
<tr>
<td>Sudan</td>
<td>114</td>
<td>1.0</td>
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<td>---</td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td>99</td>
<td>2.6</td>
<td>4.0</td>
<td></td>
<td>---</td>
<td></td>
</tr>
</tbody>
</table>

*Sources: FAO Production Yearbook 1962; Monthly Bulletin of Agricultural Economics and Statistics, Vol. 11 (FAO).*

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61 Excluding South Africa.
62 The unofficial figures of transit trade in textiles are nearly as high as those of direct intra-regional imports. According to *Contribution à l'étude des échanges extérieurs des États de l'Afrique de l'Ouest* (Banque centrale des États de l'Afrique de l'Ouest, Paris, 1963), the unrecorded imports of fabrics and clothing into West African countries in 1959 was estimated approximately at $18 million.
63 It should not be excluded that this significant re-export trade could pave the way for exports of domestic produce.
64 Interesting calculations showing high import-substitutive effects in textile industry are shown in *Industrial Growth in Africa* (E/CN.14/1 NR/1/Rev. 1).
### Table 18
Intra-African trade in textiles, fabrics, piece goods and related products (SITC 65), 1960
(In thousands of US dollars)

<table>
<thead>
<tr>
<th>Exported from</th>
<th>Senegal</th>
<th>Cameroon</th>
<th>Ivory Coast</th>
<th>Nigeria</th>
<th>Togo</th>
<th>Sierra Leone</th>
<th>Algeria</th>
<th>Morocco</th>
<th>Tunisia</th>
<th>Upper Volta</th>
<th>Togo</th>
<th>Dahomey</th>
<th>Chad</th>
<th>CAR</th>
<th>Gabon</th>
<th>Congo (Brazza.)</th>
<th>Nigeria</th>
<th>Cameroon</th>
<th>Algeria</th>
<th>Morocco</th>
<th>Tunisia</th>
<th>Libya</th>
<th>Sudan</th>
<th>UAR (Egypt)</th>
<th>Ethiopia</th>
<th>Uganda</th>
<th>Kenya</th>
<th>Tanganyika</th>
<th>Rhodesia</th>
<th>Madagascar</th>
<th>Congo (Léop.)</th>
<th>Angola</th>
<th>Mozambique</th>
<th>Mauritania</th>
<th>Reunion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Senegal</td>
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<tr>
<td>Liberia</td>
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<td>Sierra Leone</td>
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<tr>
<td>Upper Volta</td>
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<td>Togo</td>
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* Including Mali and Mauritania.

* Including Rwanda and Burundi.

* Including South Africa.
### Table 19

Intra-African trade in clothing (SITC-841), 1960

(In thousands of US dollars)

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<td><strong>Sierra Leone</strong></td>
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<td><strong>Nigeria</strong></td>
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<td><strong>Cameroon</strong></td>
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<tr>
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<td>61</td>
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<td><strong>Congo (Leop.)</strong></td>
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<td><strong>Tanganika</strong></td>
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<td><strong>Kenya</strong></td>
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<tr>
<td><strong>Madagascar</strong></td>
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<tr>
<td><strong>Mauritania</strong></td>
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<tr>
<td><strong>Reunion</strong></td>
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<tr>
<td><strong>Ethiopia</strong></td>
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<td>15</td>
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<tr>
<td><strong>Sudan</strong></td>
<td>283</td>
<td>17</td>
<td></td>
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<td></td>
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</tr>
</tbody>
</table>

**Total Africa (listed countries)**: 283, 74, 845, 422, 26, 278, 65, 128, 141, 42, 2, 100, 572, 4, 976, 180, 561, 185, 537

* Including Mali and Mauritania.

* Including South Africa.

**Footwear**

103. Total exports of footwear, in the framework of intra-African trade in 1960 amounted to approximately $2.4 million and that of leather manufactures to $400,000. The main exporters of footwear and leather manufactures were also the main importers of hides, skins and crude rubber from African countries. For example, Morocco’s exports of footwear in 1960 were valued at $1,200,000, Algeria (50 per cent) Senegal, Cameroon, the Congo (Brazzaville) and Sierra Leone being the principal importers. In the same year, Morocco imported hides and skins from Nigeria, Mali, Guinea and Algeria worth $252,000. Raw rubber was imported mostly from outside Africa, Nigeria being the sole supplier of it in 1960.

104. The second significant exporter is the UAR (Egypt), exporting footwear mainly to the Sudan ($262,000 in 1961) and importing large quantities of hides and skins from the Sudan ($1,292,000 in 1960) and Ethiopia ($112,500 in 1960). In 1960, Senegal exported to Cameroon footwear valued at $194,000, to the Congo (Brazzaville) ($30,000) and to Sierra Leone ($12,000). The Senegalese footwear industry was supplied with raw materials from African resources (hides and skins from Mali and Mauritania, rubber from Nigeria). The Congo (Leopoldville) also belongs to African countries exporting footwear and leather manufactures. In 1960, its export to Chad, the Central African Republic and the Congo (Brazzaville) reached 80.1 million.

105. Footwear and leather manufactures are suitable for import substituting production which could have a direct bearing on intra-African trade. Africa is producing the necessary raw material (hides and skins, textile fibres) in considerable quantities, the bulk of which is exported outside the continent. In 1960, the total imports of footwear into Africa amounted to $73 million and those of leather (including artificial) to $8.6 million.

*6 In the recent years, the Federation of Rhodesia and Nyasaland started to export large quantities of footwear to South Africa. In 1961 these sales amounted to $1.2 million.
IV. CONCLUSION

106. This statistical analysis shows the following principal features of intra-African trade:

(a) It consists of a large proportion of traditional trade which is only recorded to a small extent;

(b) The degree of intra-regional trade is extraordinarily low, accounting approximately for 7-8 per cent (about $450 million) of total African trade;

(c) Its relative significance has slightly changed during the last thirty years, showing a tendency to lag behind Africa's total external trade, thus reflecting, among other things, the fact that the outwardly looking, one-sided pattern of the African economy remains practically unchanged;

(d) Its diversification is even more limited than for African exports in general although there are a few commodities (e.g., kola-nuts, smoked and dried fish and some other subsistence crops) which are traded exclusively within Africa but not at all outside the continent. More than 60 per cent of its volume account for foodstuffs;

(e) It is markedly concentrated within four sub-regions which are virtually identical with areas where the population, production and transport facilities are concentrated;

(f) Its development is still heavily influenced by the links which were inherited by African countries from their colonial past; a large part of the intra-African trade is being carried out within the old monetary zones, and other preferential groupings or customs unions created or initiated by the metropolitan powers.

107. On the basis of the statistical analysis of the intra-regional commodity trade, the conclusion may be drawn that a close co-operation among African countries could result in a revelation of many of the potential opportunities of increasing mutually advantageous intra-regional trade, even on the basis of the existing production capacities (particularly as far as meat, fish, fruits, vegetables and cereals are concerned).

108. Some of the tables included in this paper clearly demonstrate the fact that the African import-replacing programmes are in their very initial stage, and that it is in the utmost interest of all African countries to work in close co-operation for the implementation of these programmes in order to prevent, or to keep to a minimum, the drain on their scarce resources which may result from uneconomical investments. The urgent need for such efforts is stressed by the facts that Africa imports from outside: textile manufactures including clothing worth about $900 million, footwear ($70 million), wheat ($160 million), meat ($50-60 million), fish ($20 million), fruits ($13 million), vegetables ($30 million). The implementation of import substitution programmes may result in an increased demand for crude materials in intra-African trade.

109. The prospects of expansion of intra-African trade in crude materials and fuels are enormous, but their realization depends on the co-ordinated establishment of complementary industries in individual African countries, and on development of African integration. For example, the construction programme of oil refineries in Africa in the next several years with envisaged capacities amounting to about 30-40 million metric tons of crude oil in 1970 could lead to a rapid growth of intra-African trade in petroleum products amounting to several hundred million dollars, if a common market for these products were created and worked satisfactorily.

110. Northern Rhodesia and the Congo (Leopoldville) with their copper and other non-ferrous metals could become the most important suppliers of material needed by African countries for their electrification programmes, etc., if the necessary co-ordination of investment and trade policy were achieved.

111. Generally, a substantial change of the pattern and significance of intra-African trade will take place as a result of African industrialization. The degree of its expansion and diversification will depend on the extent to which the intra-African division of labour will be applied in the process of industrial growth.

112. It should, however, be borne in mind that the close interdependence between co-ordinated industrial development based on the division of labour on the one hand and the expansion of intra-African trade on the other does not mean that the latter plays only a passive role in this process. On the contrary, vigorous actions aiming at reduction and elimination of all kind of barriers to intra-regional trade are a necessary precondition for accelerated industrial development in Africa owing to the smallness of national markets of individual countries. Provided that co-ordinated industrial growth is achieved everything should be done by African countries to facilitate the access to their markets of products from other African countries.

113. The industrial development in Africa and consequently the growth of intra-African trade could be substantially accelerated with the assistance of developed countries. But this help should not be limited only to the granting of credits and technical assistance etc. It should include arrangements facilitating for the manufactures and semi-manufactures, produced in Africa, the access to markets to the developed countries. This could become a great help especially in the case of the new industries, for which in the most important initial phase of their existence the African market will be too narrow.

Annex

SOUTH AFRICA'S INTRA-REGIONAL TRADE

1. In 1960, South Africa's exports to African destinations amounted to $200.6 million and imports originating in the continent to $106.7 million. Four countries (see table I) absorbed 90 per cent of South Africa's intra-regional exports, the Rhodesias and Nyasaland alone accounting for 74 per cent.

2. Two countries were responsible for 70 per cent of South Africa's imports, the Rhodesias again ranking first followed by the Congo (Leopoldville). Together with Kenya, Uganda and Tanganyika, the
INTRA-AFRICAN TRADE

TABLE I
South Africa: Direction of intra-regional trade, 1960*
(In millions of dollars and in percentages)

<table>
<thead>
<tr>
<th>Destination</th>
<th>Value</th>
<th>Percentage of the total</th>
<th>Origin</th>
<th>Value</th>
<th>Percentage of the total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rhodesia and Nyasaland</td>
<td>147.5</td>
<td>73.7</td>
<td>Rhodesia and Nyasaland</td>
<td>40.7</td>
<td>37.8</td>
</tr>
<tr>
<td>Mozambique</td>
<td>16.2</td>
<td>8.0</td>
<td>Congo (Leopoldville)</td>
<td>33.8</td>
<td>31.7</td>
</tr>
<tr>
<td>Kenya</td>
<td>10.1</td>
<td>5.0</td>
<td>Kenya, Tanganyika, and Uganda</td>
<td>11.0</td>
<td>10.1</td>
</tr>
<tr>
<td>Congo (Leopoldville)</td>
<td>6.2</td>
<td>3.0</td>
<td>Mozambique</td>
<td>4.1</td>
<td>3.8</td>
</tr>
<tr>
<td>Other</td>
<td>20.6</td>
<td>10.3</td>
<td>Other</td>
<td>17.1</td>
<td>16.6</td>
</tr>
<tr>
<td><strong>Total Africa</strong>:</td>
<td>200.6</td>
<td>100</td>
<td><strong>Total Africa</strong>:</td>
<td>106.7</td>
<td>100</td>
</tr>
<tr>
<td><strong>Total World</strong>:</td>
<td>897.9</td>
<td>100</td>
<td><strong>Total World</strong>:</td>
<td>1 284.3</td>
<td>100</td>
</tr>
</tbody>
</table>

Total Africa as per cent of total world: 22.3
Total Africa as per cent of total world: 8.3


* Excluding re-exports.

TABLE II
South Africa: Intra-regional trade by sub-region, 1960*
(Values in millions of US dollars)

<table>
<thead>
<tr>
<th></th>
<th>North West</th>
<th>West</th>
<th>North East</th>
<th>Central</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Imports f.o.b.</td>
<td>4.0</td>
<td>3.7</td>
<td>9.8</td>
<td>9.2</td>
<td>1.0</td>
</tr>
<tr>
<td>Exports f.o.b.</td>
<td>0.1</td>
<td>—</td>
<td>6.9</td>
<td>3.3</td>
<td>4.2</td>
</tr>
</tbody>
</table>

Source: See table I.

* Excluding re-exports.

TABLE III
South Africa: Commodity structure of intra-regional trade, 1960
(Values in millions of US dollars)

<table>
<thead>
<tr>
<th>Commodity sections (SITC)</th>
<th>Imports</th>
<th>Exports</th>
<th>Composition of intra-African trade (excl. S.A.)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Percentage</td>
<td>Percentage</td>
<td>Percentage</td>
</tr>
<tr>
<td>Foodstuffs (0 + 1)</td>
<td>16.0</td>
<td>34.4</td>
<td>61.1</td>
</tr>
<tr>
<td>Raw material (2 + 4)</td>
<td>17.6</td>
<td>5.7</td>
<td>12.0</td>
</tr>
<tr>
<td>Fuels (3)</td>
<td>0.1</td>
<td>7.1</td>
<td>3.3</td>
</tr>
<tr>
<td>Chemicals (5)</td>
<td>2.5</td>
<td>23.5</td>
<td>3.3</td>
</tr>
<tr>
<td>Manufactures (6 + 8 + 9)</td>
<td>68.7</td>
<td>83.7</td>
<td>23.6</td>
</tr>
<tr>
<td>Machinery (7)</td>
<td>1.8</td>
<td>46.7</td>
<td>23.6</td>
</tr>
</tbody>
</table>

**Total**: 106.7 100 200.6 100 100

Source: See table I.

* Of total value of imports from Africa.

5. The commodity composition of South Africa's intra-regional trade differs substantially from that of intra-African trade. This is clearly shown in table III. In contrast with the rest of the African countries, trading with each other predominantly in foodstuffs, South Africa's intra-regional trade is characterized by a heavy concentration on manufactured goods.

five countries accounted for 80 per cent of South Africa's imports from the continent.

3. Another two remarkable features of South Africa's intra-regional trade can be seen from table I. First of all, there is the huge disequilibrium of this trade, represented by a $100 million net export balance which is due almost entirely to trade with the Rhodesias and, to a smaller extent, with Mozambique. On the other hand, there is a considerably large net import balance in trade with the Congo (Leopoldville).

4. Secondly, the relative importance of South Africa's exports to African destinations is nearly three times higher than that of imports (22.3 and 8.3 per cent of its over-all world exports and imports respectively). A share of 94.6 per cent of South Africa's intra-regional exports went to the central sub-region where 86.1 per cent of its intra-African imports originated (see table I).
TABLE IV
South African trade with selected African countries, 1960 and 1962
(In millions of dollars, f.o.b.)

<table>
<thead>
<tr>
<th>Countries</th>
<th>1960</th>
<th></th>
<th></th>
<th>1962</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Imports</td>
<td>Exports</td>
<td>Turnover</td>
<td>Imports</td>
<td>Exports</td>
<td>Turnover</td>
</tr>
<tr>
<td>Morocco</td>
<td>3.2</td>
<td>0.2</td>
<td>3.4</td>
<td>3.2</td>
<td>—</td>
<td>3.2</td>
</tr>
<tr>
<td>UAR (Egypt)</td>
<td>0.8</td>
<td>1.4</td>
<td>2.2</td>
<td>—</td>
<td>0.9</td>
<td>0.9</td>
</tr>
<tr>
<td>Ivory Coast</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>2.9</td>
<td>—</td>
<td>2.9</td>
</tr>
<tr>
<td>Sierra Leone</td>
<td>0.9</td>
<td>0.3</td>
<td>1.2</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Ghana</td>
<td>6.1</td>
<td>3.2</td>
<td>9.3</td>
<td>0.7</td>
<td>—</td>
<td>0.7</td>
</tr>
<tr>
<td>Nigeria</td>
<td>0.3</td>
<td>2.3</td>
<td>2.6</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Kenya</td>
<td>4.1</td>
<td>10.1</td>
<td>14.2</td>
<td>3.8</td>
<td>8.2</td>
<td>12.0</td>
</tr>
<tr>
<td>Uganda</td>
<td>2.1</td>
<td>1.4</td>
<td>3.5</td>
<td>1.7</td>
<td>1.1</td>
<td>2.8</td>
</tr>
<tr>
<td>Tanganyika</td>
<td>4.8</td>
<td>1.9</td>
<td>6.7</td>
<td>5.9</td>
<td>0.8</td>
<td>6.7</td>
</tr>
<tr>
<td>Congo (Leopoldville)</td>
<td>33.8</td>
<td>6.2</td>
<td>40.0</td>
<td>31.6</td>
<td>11.0</td>
<td>42.6</td>
</tr>
<tr>
<td>Rhodesia and Nyasaland</td>
<td>40.7</td>
<td>147.5</td>
<td>188.2</td>
<td>40.1</td>
<td>135.2</td>
<td>175.3</td>
</tr>
<tr>
<td>Angola</td>
<td>0.6</td>
<td>1.3</td>
<td>1.9</td>
<td>1.2</td>
<td>1.6</td>
<td>2.8</td>
</tr>
<tr>
<td>Mozambique</td>
<td>4.1</td>
<td>16.2</td>
<td>20.3</td>
<td>3.8</td>
<td>20.6</td>
<td>24.4</td>
</tr>
<tr>
<td><strong>TOTAL (listed countries)</strong></td>
<td><strong>101.5</strong></td>
<td><strong>192.0</strong></td>
<td><strong>293.5</strong></td>
<td><strong>94.9</strong></td>
<td><strong>179.4</strong></td>
<td><strong>274.3</strong></td>
</tr>
</tbody>
</table>

**NOTE:** Symbol "—" means: none, negligible, or entry not applicable.

**TABLE V**
Direction of South African trade, 1960 and 1962 (In millions of dollars f.o.b. and in percentages)

<table>
<thead>
<tr>
<th></th>
<th>Africa</th>
<th>Western Europe</th>
<th>United Kingdom</th>
<th>United States</th>
<th>Japan</th>
<th>Planned economies</th>
<th>Other</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1960</td>
<td>331</td>
<td>617</td>
<td>819</td>
<td>376</td>
<td>105</td>
<td>35</td>
<td>497</td>
<td>2780</td>
</tr>
<tr>
<td>1962</td>
<td>291</td>
<td>663</td>
<td>841</td>
<td>357</td>
<td>157</td>
<td>13</td>
<td>446</td>
<td>2768</td>
</tr>
<tr>
<td>Percentage</td>
<td>−12.0</td>
<td>+7.4</td>
<td>+2.6</td>
<td>−4.9</td>
<td>+49.5</td>
<td>−63.0</td>
<td>−10.2</td>
<td>−0.4</td>
</tr>
</tbody>
</table>


66 There seems to be no doubt that the diamonds of Congolese and other African origin (Ghana, etc.) are re-exported or exported by South Africa after processing.

67 Sudan, Ethiopia, Ghana, Nigeria, Sierra Leone, the Republic of Guinea and Liberia banned trade with South Africa in 1961. The UAR, Mali, Algeria, the Upper Volta, Rwanda, Libya, Cameroon, Senegal, Uganda, Tanganyika, the Niger, Dahomey and Mauritania all banned trade with South Africa in 1963.
FOREIGN TRADE PLANS IN SELECTED COUNTRIES IN AFRICA*

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  4. Allocation of total planned investment by sectors in selected countries.
  5. Changes in the structure of planned production by sector.
  6. UAR imports and exports as percentage of total resources by sector.

B. Sources

INTRODUCTION

1. The purpose of this paper is to review the foreign trade in African development plans. Two criteria were employed in selecting African development plans for inclusion in the analysis of this paper. These are the availability of adequate quantitative projections for the external sector and the full integration of the plans for this sector in over-all development objectives and plans.

2. At present, there are no less than twenty countries that have adopted development planning of one form or another. However, the plans of many of these countries are public expenditure-cum-sectoral plans containing in most cases vague references of objectives for the external sector that are neither elaborated quantitatively nor fully integrated with over-all development goals and objectives.

3. There is a group of eight countries, however, which has plans and projections for foreign trade in a way that are sufficiently integrated with the over-all development programmes. These countries are: the UAR, Tunisia, Morocco, Sudan, Mali, Ghana, Nigeria and Ethiopia. This group includes four countries from the North African, three from the West African and one country from the East African sub-region. In this paper, an attempt is made to review the foreign trade plans of the above eight countries. In addition to the above countries, Senegal and Cameroon have also initiated comprehensive development plans. But these have been omitted from this review because the quantitative aspects of foreign projections were found inadequate.

4. It is realized, however, that the selected countries hardly provide a fair sample of African foreign trade, particularly from the standpoint of the diversity of African commodity exports. The main gap lies in the omission of countries from the Central and East African sub-regions. Being latercomers to independence, these countries have not as yet launched fully

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* This paper has been prepared by the secretariat of the United Nations Economic Commission for Africa in connexion with the item on “Expansion of international trade and its significance for economic development”, particularly the sub-item “International trade and its relations with national development planning, policies and institutions”, item I.3 of the list of main topics, and item 10(c) of the provisional agenda (See Interim Report of the Preparatory Committee (first session), in Vol. VIII of this series).
integrated comprehensive plans of social and economic development. Although few in number in terms of national income and population, the eight countries selected cover something like 60 per cent of the 32 independent African countries.

5. In presenting the material on import and export plans in this paper, a distinction is made between (i) the analysis of global import and export targets and their consistency with the over-all development and (ii) the detailed analysis of foreign trade by commodities or group of commodities. Chapter I of this paper is concerned with the first, whereas Chapter II and III are concerned with the second. As far as Chapter I is concerned, it was feasible to present the material in a way that makes inter-country comparison possible. The detailed plans of imports and exports in Chapter II and III cannot, however, be fully compared in this way. The nature of commodity exports as well as the differing classifications and levels of disaggregation adopted by the plans render inter-country comparisons difficult.

Chapter I

TRADE IN OVER-ALL DEVELOPMENT TARGETS AND PROSPECTS

(1) PLAN OBJECTIVES

6. The main objective of economic development common to all the development plans of the eight African countries is the paramount need to raise the level of per capita income. Each development plan provides a list of other related objectives, some consistent and some conflicting with the central objective of raising per capita income, depending, of course, on the initial circumstances and problems peculiar to each economy. The UAR includes among its main objectives: a better distribution of incomes, an increase in agricultural production, a creation of an industrial base, and a greater role of the public sector in the over-all guidance economic development. Tunisia has among its chief aims: economic decolonization, income redistribution, full employment, self sustained growth, and a change in social structure. Morocco includes among its objectives: a change in the structure of the economy, import substituting development, reform of land tenure, increase of domestic savings, and the use of direct labour for development, etc. Sudan emphasizes diversification of the economy, increase of exports and import substitution, and the improvement of the social sectors. Mali attaches importance to: economic decolonization, the role of the State in directing planned economic development, the need to create adequate infrastructure, and to raise agricultural production both for domestic consumption and exports. Ghana's main objectives, in addition to raising the standard of living are: full employment, decolonization, and a restructuring of the unbalanced economy inherited from the colonial period, a greater role of the Government and socialist policies with respect to income distribution, etc. Nigeria attaches importance to raising domestic savings in order to attain self-sustained growth by 1975, better employment and social conditions of the people, technical education, etc. Ethiopia aims at raising the domestic saving potential, the introduction of new technology machinery and equipment, and the improvement of the social services.

7. This catalogue of aims and objectives contained in the development plans shows the acute awareness of the countries concerned to change the structure of their economies. There is an urgent necessity to move away from the low productivity primary and services sectors to industrial production. We may, therefore, say that a central objective of all the development plans is the need to restructure the economies which they have inherited from the colonial period. Despite the low levels of income prevailing in most of these countries, the increase in consumption as an objective in economic and social development is minimized.

(2) MAIN TARGETS IN DEVELOPMENT PLAN

8. Once the broad objectives have been settled or agreed to by the political authorities, the elaboration of concrete targets that are considered attainable to meet the over-all objectives is normally left to the planners. The techniques of planning used by planning authorities to determine the targets as well as the initial assumption made in order to fix the values of the remaining components of the system vary from country to country. The UAR, Tunisia and Morocco have employed up to date and rather sophisticated methods in elaborating the final shape of their plans. The rest have adopted less elaborate methods that are pragmatic and approximative in working out their development plans.

9. Some countries start by fixing in the first instance the growth rate of GDP and the total investment required as primary targets, while the rest of the system including the parameters of the external sector are, subsequently determined. Others start by making assumptions concerning the external sector and then the target rate of growth of GDP is finally determined. In practice the setting up of targets is complicated and varied. To a large extent, it depends on the primary objectives chosen, the methods used, and last but not least the preference of planners. We shall not for the purpose of this paper be concerned with the details in which development targets have been derived.

10. We shall take them ex-post, as are embodied in the plan documents and only concern ourselves with their consistency; and what these targets, if they persist throughout the plan periods, will imply in terms of the main aggregate determinants of growth in the evolution of the planned African economies during the present decade. More particularly we shall be concerned with the change in the coefficients of the
ports, and exports are presented above. In this connection, reference should also be made to Tables 1 and 2 in Appendix A.

11. The UAR Five-Year Development Plan, 1959/60-1964/65, aims at doubling the national income in ten years. In order to achieve this target, the annual growth rate of national income will be 7 per cent. The population rate of increase is estimated at 2.5 per cent in ten years. In order to achieve this target, the annual growth rate of national income will be 7 per cent. The population rate of increase is estimated at 2.5 per cent per annum. Hence the planned rate of growth will correspond to an annual increase in per capita income of 4.5 per cent per annum. The national income is expected to increase from US$3,681 million to US$5,155 million between 1959/60 and 1964/65. According to the plan document, a total investment of US$4,796 million would be required for the plan period in order to achieve the projected increase in national income. Some 40 per cent of the estimated total investments are to be secured from external sources. Total imports are expected to decline at annual rate of 1.6 per cent while exports are expected to increase at 0.2 per cent. The planned decline in imports will mean that aggregate supply \(^2\) will increase less rapidly than national income, i.e., at the rate of 5.7 per cent per annum. The significant disparity between the growth rates of exports and imports (which is 1.8 per cent) will mean that by the end of the plan period the trade balance will improve considerably. The projected growth rate for investment is rather modest, being 3.9 per cent which allows aggregate consumption to increase substantially by 5.7 per cent.

12. The plan therefore intends to change the structure of aggregate demand in favour of internal demand. This is made possible by the fact that the UAR intends to undertake a serious programme of import substitution. Between 1959/60 and 1964/65 total imports \(^6\) will decline from US$734 million to US$686 million while exports \(^6\) will only rise from US$745 million to US$751 million. This represents a change in total imports from 16.7 per cent to 11.7 per cent of aggregate supply; and a change in total exports from 16.9 per cent to 12.9 per cent of aggregate demand during the plan period. The modest trade surplus which prevailed at the beginning of the plan will substantially improve by 1965.

13. The plan provides direct estimates of the projected volume of commodity trade and net surplus on both visible and invisible trade but no direct estimates of invisibles. The net surpluses separately for visibles and invisibles can, however, be inferred. From this analysis it is found that the net surplus on the invisible item is expected to decline considerably during the plan period but this is compensated by a more than proportionate increase of the expected surplus on commodity trade.


15. During the first plan period, i.e., between 1961 and 1964, the gross domestic product is expected to increase by 6.3 per cent per annum. While imports are planned to increase at the rate of 4 per cent per annum giving rise to 5.4 per cent annual increase in the aggregate supply of goods and services. The plan assumes the growth rate of population ranging between 1.7 and 1.9 per cent per annum which means that per capita income is expected to increase between 5.7 and 5.9 per cent annually. The Tunisian planned increase in the per capita income is the highest among the 8 countries under review.

16. According to the plan, the gross domestic product will rise from US$645 million to US$767 million between 1961 and 1964. The estimated total investment for the planned period is US$643 million, and invisible trade.

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**Table 1**

Planned rates of growth of main aggregates in selected African countries  
(Annual compound rates of growth in percentages)

<table>
<thead>
<tr>
<th>Aggregates</th>
<th>Actual 1956-60</th>
<th>Planned rates</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Imports</td>
<td>1960-65</td>
</tr>
<tr>
<td>1. UAR</td>
<td>4.9</td>
<td>1960-65</td>
</tr>
<tr>
<td>2. Tunisia</td>
<td>-0.5</td>
<td>1962-64</td>
</tr>
<tr>
<td>3. Morocco</td>
<td>-3.7</td>
<td>1960-64</td>
</tr>
<tr>
<td>4. Sudan</td>
<td>8.6</td>
<td>1961-71</td>
</tr>
<tr>
<td>5. Mali</td>
<td>7.0</td>
<td>1961-65</td>
</tr>
<tr>
<td>6. Ghana</td>
<td>9.9</td>
<td>1963-70</td>
</tr>
<tr>
<td>7. Nigeria</td>
<td>8.9</td>
<td>1962-68</td>
</tr>
<tr>
<td>8. Ethiopia</td>
<td>7.3</td>
<td>1962-67</td>
</tr>
</tbody>
</table>

Source: See Appendix B.

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\(^3\) Fiscal year beginning 1 July 1960 and ending 30 June 1965.  
\(^4\) All subsequent figures have been rounded to the nearest million.  
\(^5\) Throughout this paper, aggregate supply refers total resources which is equal to gross domestic product plus imports.  
\(^6\) Aggregate demand, throughout, refers to total uses which is equal to internal demand (consumption plus investment) plus external demand for goods and service (exports).

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\(^1\) Sudan  
\(^2\) Ghana  
\(^3\) UAR  
\(^4\) Aggregates

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\(^8\) Refers to commodity imports only.  
\(^9\) Exports refer to commodity exports plus net surplus on visible and invisible trade.
57 per cent of which is expected to be made available from external sources.

17. Exports as well as aggregate consumption will hardly increase during this period. The planned growth rate of exports is 0.3 per cent while that of consumption only 1.7 per cent against a minimum rate of increase of population which is 1.7 per cent. The plan thus intends to stabilize exports at about the same level and makes no allowance for a per capita increase in consumption. A serious curtailment of consumption and external demand means that practically the entire increase in aggregate supply of resources will be devoted to the increase of aggregate investment. Accordingly, the plan foresees an annual increase in aggregate investment of 14.7 per cent which is one of the highest among the countries selected. The Tunisian plan is therefore an austerity plan, equipment plan, paving the way for the second plan.

18. Between 1961 and 1964 total imports will rise from US$233 million to US$263 million while exports will almost remain stable at US$150 million. Total imports, expressed as per cent of aggregate supply, will decline from 26.5 per cent in 1961 to 25.5 per cent in 1964. A sharper decline in exports is expected decreasing from 17 per cent to 14.6 per cent of aggregate demand for that period. This means the external deficit will increase from 9.5 per cent in 1961 to 10.9 per cent in 1964.

19. Reference must also be made to the 1965-1971 perspective targets during this period. The growth rate of national income declines somewhat, increasing at 0.6 per cent while that of imports declines sharply increasing at only 1.4 per cent. Aggregate supply would then increase by 5 per cent. On the demand side the growth rates of the main components are reversed. Consumption shifts up to 4.3 per cent, exports go up to 5.4 per cent while investments decrease to 7 per cent.

20. If something like these targets are adopted in the second plan we may expect the aggregate import coefficient to decline and the export coefficient to increase, and this substantially diminishes the external deficit that will have prevailed by the end of the first plan. As will be discussed later this is to be made possible by the considerable scope for import substitution during the second plan.

21. The Five-Year Development Plan of Morocco (1960-1965) projects the annual growth rate of gross domestic product at 6.2 per cent and the rate of growth of population for the plan period is estimated at 2.5 per cent implying an annual increase in the per capita income of 3.7 per cent. Accordingly, the gross domestic product is expected to rise from US$1,620 million to US$2,189 million between 1960 and 1965. This will be made possible by investing a total sum US$1,545 million over the five years. Of this total Morocco expects only 10 per cent to come from foreign sources.

22. At the same time it is planned to increase imports by 6.4 per cent annually at about the same rate as the gross domestic product which will cause the aggregate supply of goods and services to increase at 6.2 per cent for the period as a whole. On the de- mend side the growth rate of exports and the aggregate investment are projected at 6.5 and 22.2 per cent respectively. This high rate of growth and particularly that of investment, as 90 per cent of it will have to be raised from domestic sources, means that the rate of growth of aggregate consumption will have to be curtailed severely increasing at the rate of 3.4 per cent only. This is quite modest when compared with population rate of growth of Morocco. While Morocco's planned growth for aggregate consumption and investment are similar to that of Tunisia, unlike Tunisia Morocco's planned imports and exports will increase relative total resources.

23. The difference lies in the way each proposes to finance the investment programme. Tunisia intends to finance its three-year plan by increasing the external deficit while Morocco plans to finance it by increasing the capacity to import and decreasing the external deficit from 1.9 to 1.7 between 1960 and 1965.

24. Total planned imports are expected to increase from US$436 million in 1960 to US$594 million in 1965 while total planned exports will increase from US$398 million to US$546 million during the same period.

25. This represents a change in planned imports from 21.2 per cent to 21.3 per cent of aggregate supply between 1960 and 1965; and a change in export from 19.3 per cent to 19.6 per cent during the same period.

26. The Ten-Year Development Plan of the Sudan, 1960/61-1970/71, fixes the target rate of growth of gross domestic product at 5 per cent per annum and imports only at 2 per cent. Thus aggregate supply is expected to grow at 4.5 per cent. Accordingly, the gross domestic product should increase from US$1,106 million to US$1,787 million between 1960/61 and 1970/71. Total investment planned for the ten-year period is estimated at US$1,624 million of which 26 per cent is expected to be secured from abroad. The Sudan does not propose to modify radically the demand components. The modest changes that are intended to be effected during the plan period are somewhat of a reversal of the above three cases we have examined with the major exception of import substitution which will be discussed below.

27. Aggregate consumption, investment, and exports are expected to increase at the rates of 5 per cent, 4.3 per cent, and 4.7 per cent respectively. If these planned rates persist to obtain throughout the ten-year period, aggregate consumption will increase

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8 Base year 1964 planned targets.

relative to aggregate demand while the rate of investment must be expected to lag behind and exports will just about maintain their position. The high consumption element is accounted for by two factors, namely; (1) the high level of population increase which is estimated at 2.8 per cent and (2) the high level of government expenditure in aggregate consumption as well as the rapid rate of growth of this component, which is expected almost to be double the initial level by 1970/71.

28. Total planned imports will increase from US$234 million to US$285 million while planned exports should increase from US$182 million to US$226 million during the plan period. The changes correspond to a relative decline in imports from 17.4 per cent to 13.7 per cent of aggregate supply and a minor relative increase in exports from 13.5 to 13.8 per cent of aggregate demand. These relative changes indicate that Sudan intends to undertake a serious programme of import substitution, on the one hand, and to change its trade balance from a deficit of 3.9 per cent in 1960/61 to a surplus of 0.3 per cent by the end of the present decade, on the other.

29. The Seven-Year\(^9\) Development Plan of Ghana, 1962/63-1969/70, assumes an annual growth rate of gross domestic product of 6 per cent and a population growth rate of 2.6 per cent; providing an increase in per capita income of 3.4 per cent per annum. The gross domestic product should increase from US$1,579 million to US$2,259 million by the end of the plan period. The plan envisages a total investment of US$2,352 million of which 30 per cent is earmarked to be secured from external sources.

30. Total planned imports are expected to increase by 6.9 per cent and aggregate supply of goods and services should, therefore, increase by 6.1 per cent annually. On the demand side the planned rates of growth of aggregate consumption, investment and exports are 5 per cent, 9.1 per cent and 7.6 per cent annually. If these targets are to be realized during the plan period one should expect total imports to increase relative to total supplies and increases in investment and exports relative to aggregate demand during the plan period. On the other hand, aggregate consumption should relatively diminish.

31. Between 1962/63 and 1969/70, the value of imports should increase from US$434 million to US$650 million, the value of exports from US$353 million to US$546 million. Expressed as per cent of aggregate supply, imports will increase from 21.6 per cent to 22.6 per cent during the period 1962/63 and 1969/70. Meanwhile exports should increase from 17.5 per cent to 19.0 per cent of aggregate demand. Accordingly, there should be a modest decrease in the import surplus declining from 4.0 to 3.6 per cent of aggregate demand. The Ghana case presents, unlike the previous cases examined, both an import-biased and an export-biased type of planned development.

32. The Development Plan of Mali (1961-1965)\(^10\) projects the gross domestic product to increase at 8 per cent and total imports are estimated to increase by 9.1 per cent annually. Aggregate supply will, therefore, increase at the rate of 8.2 per cent every year. The value of gross domestic product 1962 is estimated at US$256 million, which is to increase to US$377 million by 1967. Total investment for Mali is given at US$259 million for the period 1961/1965 of which 56 per cent is to come from abroad.

33. The expected rate of growth for consumption, investment and exports are given at 6.7, 12.7 and 12.4 per cent respectively. We should, therefore, expect that imports, exports and investment will, during the implementation of the plan, increase relative to aggregate supply and demand particularly that of investment and exports.

34. Total imports may increase from US$62 million to US$96 million between 1962 and 1967 representing a relative increase from 19.6 per cent to 20.4 per cent of aggregate supply. Exports, on the other hand, are planned to increase from US$34 million to US$60 million during the same period; i.e., from 10.5 per cent to 12.7 per cent of aggregate demand. The higher rate of growth projected for exports relative to imports will entail a decline of the import surplus from 9 per cent in 1962 to 7.6 per cent in 1967. The Mali plan is, therefore, based on optimistic rates of growth all round, particularly that for exports. According to these projections, we should expect an export and import based type of development resulting in a relative increase of the rate of investment and diminishing import surplus which prevailed at the beginning of the plan period.

35. The Six-Year\(^11\) Development Plan of Nigeria, 1961/62-1967/68, adopts a rather modest rate of growth of GDP which is 4 per cent. Aggregate investment is fixed at 15 per cent of GDP throughout the plan period which means that it will grow at the same rate as GDP. The value of total investment foreseen for the entire period is estimated at US$3,313 million, 28 per cent of which is expected from outside.

36. Planned imports are to increase at 5 per cent and aggregate supply of goods and services may well increase at about 4.2 per cent annually. Aggregate consumption, investment, and exports are expected to increase at 3.7, 3.9 and 5.5 per cent respectively. The pattern of development foreseen for Nigeria is, therefore, similar to that of Ghana and Mali, except that the rates of growth of Mali are double that of Nigeria, and Ghana falls half way between the two. The rather low rate of growth in the case of Nigeria is due to implicit use of high capital output ratio of 3.8, which is rather high compared to 2.2 for Mali. Secondly, the investment rate is stabilized in Nigeria whereas in the case of Mali and Ghana, the investment rates are expected to increase relative to aggregate demand.

37. The second Five-Year\(^12\) Development Plan of Ethiopia, 1961/62-1966/67, starts by fixing the rate of growth of GDP at 4.3 per cent. This is because the

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\(^9\) Fiscal year beginning 1 October 1963 and ending 30 September 1970.

\(^10\) All estimates for Mali based on 1967 projections with 1962 as base year; information obtained by ECA officials visiting Mali.

\(^11\) This refers to the period 1961-1966.

\(^12\) Fiscal year beginning 1 April 1962 and ending 31 March 1968.
initial level of gross capital formation is still low and a capital output ratio of 3.4 seems to have been implicitly assumed in calculating the growth rate. The rate of growth projected for imports is, however, very high, i.e., 11.2 per cent per annum. Total imports will increase rapidly relative to total supply of resources. The gross domestic product is expected to increase from US$85 billion to US$109 billion between 1961/62 and 1966/67. The value of total investment foreseen for the entire period is estimated at US$683 billion of which 38 per cent is external resources.

38. Exports are expected to increase at 10 per cent annually from US$111 million to US$179 million by the end of the plan period, while imports will increase from US$125 million to US$214 million. These significant changes that are effected will mean a relative increase for exports from 11.3 per cent to 14.1 per cent of aggregate demand, and for imports from 12.8 per cent to 16.8 per cent of aggregate supply. Thus given the rather low rate of growth of GDP, the high planned rates for investment and exports can only be achieved by a similar rise in imports. The growth rate allowed for aggregate consumption in the Ethiopian plan is, however, modest.

39. Brief mention must now be made of how the planned rates of growth for imports and exports compare with those obtaining in the immediate past. With this in view the growth rates between 1956 and 1960 were computed. In comparing these figures account should be taken of the following facts: (1) the planned figures are at fixed prices at the beginning of the plan period; (2) the growth rates for 1956-1960 are at current prices; (3) the coverage of the data in the two cases is not necessarily the same. Nonetheless, they enable a rough comparison to be made.

40. During 1956-1960, the imports of Tunisia and Morocco were stagnant and even declining. The planned imports of these two countries are much higher than 1956-1960 figures, whereas in the case of the UAR imports were increasing during this period. The planned absolute decline in UAR imports is, therefore, a reversal of the Tunisian and Moroccan cases. The Sudan was increasing her imports at a rather high rate during this period and her 2 per cent planned growth rate will curtail imports substantially.

41. As far as the exports of the four North African countries are concerned, they had stagnated during 1956-1960 with the exception of the UAR, which was increasing its exports at a rather high rate, while Morocco intends to raise here exports substantially above the level which prevailed in the previous period. Tunisia and the UAR intend to increase their exports at a rather modest rate.

42. As far as the rest are concerned, they all plan to raise the level of their exports substantially above those obtaining in 1956-1960 period. The increase in total imports will remain at about the same level. A change in composition will, of course, take place as discussed below.

(3) DEVELOPMENT PROSPECTS 1960-1970

43. So far we discussed the global country targets for imports and exports in an attempt to relate them to over-all development plan targets. In this section an effort is made to present a bird's eye view of the probable evolution of the planned African economies through the present decade and to what extent the positions of these selected African economies would differ by 1970 from their initial positions at the beginning of the decade.

44. To do this the target levels of GDP, consumption, investment, exports, and imports have been computed for 1965 and 1970 by using the growth rates and structural shifts assumed in the development plans themselves. The assumption that the development targets set by the various countries should persist to obtain throughout the period is thus crucial to the analysis of this section. This also assumes that in the case of Tunisia and Morocco, the new plans that will be issued for the second half of the 1960s will not adopt markedly different targets from those given in their present perspective plans. On this premise, the target levels of the main aggregates thus computed have been expressed as ratios of aggregate supplies and demands. The same ratios have also been computed for 1960 using actual data available for that year. At the same time, value indices for these aggregates, 14 have been computed for 1965 and 1970.

45. Before proceeding to discuss the changing coefficients of aggregate imports and exports for 1965 and 1970, it would be in order to make a few general points. Given the rate of growth of the gross domestic product, the corresponding rate of aggregate investment required to cause the desired change will be fixed depending on the product capital output ratios of each sector of the economy and the allocation pattern of investment. If the rate of growth of imports corresponding to a given rate of growth of GDP is fixed, the additional increase in current resources that will be devoted to consumption and exports is also determined. If a developing country with an initial external deficit wishes to maintain it at the same level throughout the plan period, the rate of growth of exports will roughly equal the rate of growth of imports. If on the other hand, the developing country wishes to reduce its deficit, then exports must grow faster than imports, in which case the desired increase in investment corresponding to the target rate of growth of GDP will only be possible by reducing the rate of growth of consumption relative to exports and imports.

46. Suppose a developing country (A) has a considerable scope for import substitution. It plans for a substantial decrease in imports relative to total supplies of resources; i.e., imports as per cent of aggregate supply of resources will decline. If at the same time the developing country wishes to reduce its import surplus, then the relative decline for exports will be less than that for imports. In such a situation, more resources will be released both for investment and consumption. The initial financial gap will have to be met by reducing the aggregate consumption ratio substantially. A substantial reduction in the aggregate consumption ratio will be feasible if the initial situation with respect to the rate of growth of population and per capita income levels is favourable.

14 Base year 1960.
The opposite will be the case if a developing country (B) has a limited scope for import substitution and unfavourable initial situation with regard to the growth rate of population and per capita income levels. In such circumstances, the growth of aggregate supply of resources is maintained by a relative increase in the capacity to import. The aggregate import and export ratios will increase relative to aggregate supply. The ability to expand exports depends on external factors, terms of trade, on the one hand, and the need to devote resources to maintain an adequate fuel of consumption investment. Given a high rate of growth of exports, the investment rate will be relatively low, the more so since the growth of consumption cannot be sufficiently curtailed. A substantial part of the investment must, therefore, be financed by the import surplus. That is why in the plans of countries that are just embarking on economic development there tends to be a kind of built-in import surplus which is of quasi-permanent character.

The analysis of changes in the ratios of aggregate imports, exports, consumption, and investment as well as the value indices computed for 1965 and 1970 show that the planned development of the eight countries under review fall into two patterns, which are distinctly different. If we substitute the projected development of the group consisting of the UAR, Tunisia, Morocco, and to some extent of the Sudan for developing country (A) and the group of countries consisting of Ghana, Mali, Nigeria, and Ethiopia for developing country (B) above, the pattern of development which these countries are intending to bring about can easily be appreciated.

All the countries of the first group plan to curtail their imports quite drastically and to reduce the growth of exports as well but less proportionately. At the same time, they plan modest increases in consumption which enable them to increase aggregate investment to a remarkable high rate. According to the value indices computed for 1965 and 1970 (see Table 2 below), the gross domestic product of the four countries of the first group will increase by 36 per cent in 1965 and by 88 per cent in 1970. Total imports will increase by 12 per cent in 1965 and only by 18 per cent in 1970. This shows, quite sharply, the extent to which the North African countries intend to embark on a serious programme of import substitution, particularly, during the second half of the present decade. There are, of course, differences in the phasing of this programme. The UAR will have begun during the first plan period. In fact, during this period UAR imports decline not only relatively but also absolutely. Tunisia, Morocco and Sudan will have begun to implement this programme during the first half but will carry out a more intensive programme of import substitution during the second half of the 1960s. As we have seen before, the Tunisian plan is, in a sense, an equipment plan which requires a substantial level of import surplus. In the second phase, however, imports of these countries are expected to be drastically reduced. The exports of the first group of countries, as a whole, are expected to increase at about the rate of imports during the first half of the 1960s, while during the second half of the 1960s they are expected to increase faster. By 1970, exports should stand at 45 per cent compared to 14 per cent in 1965 above the 1960 level, so that by the end of the present decade, exports should increase by 2.5 times the increase in imports and by half the increase in the gross domestic product of the region. The increase in consumption will be substantially lower but will have increased somewhat faster than exports. The lag of both exports and consumption means that a significant portion of the national resources of these countries is planned for the increase in the gross capital formation. By 1970, aggregate investment of the region should be about three times the level attained in 1960 compared to a 60 per cent increase during the first phase.

For the rest of the group the expected development of the external sector is the reverse. Both imports and exports increase relatively faster to the growth of the domestic product. By 1970 the total imports and exports of Ghana, Mali, and Nigeria stand about 70 per cent above the 1960 level compared to a 55 per cent increase in the growth of domestic product, while consumption increases about the same rate as GDP. This means that the increase in the rate of capital formation is geared to the rate at which the external sector increases. In fact, investment by 1970 for the three countries as a whole should not increase by more than 70 per cent above the 1960 level. In the case of Ethiopia, the rate of growth of GDP is lower than the West African group of countries, consumption is expected to increase somewhat lower than GDP, but imports and exports are planned to increase about 2.5 times that of GDP. Again, the investment rate is geared to the external sector, so that by 1970 the increase in investment will have reached the same level as that of exports and imports.

What has been said above can also be stated in terms of changes in the aggregate coefficients relative to aggregate supplies and demands as the planned economies are expected to develop during the present decade. Changes in export and import ratios expressed as percentage of total resources are shown in a table.

For the four North African countries as a whole, the global import ratios will decline from about 18 per cent in 1960 to 16 per cent in 1965 and, finally,
to about 12 per cent in 1970. As far as planned exports are concerned, the corresponding ratios for the same interval years are about 17, 15 and 14 per cent, respectively. The rapidly declining import ratio indicates that import substitution must be planned on a substantial scale, a point which has been referred to above. The less proportionate decline in the export ratio will entail that the substantial external deficit which prevailed during the first half of the 1960s will be changed into a substantial surplus by the end of the decade. There again are some differences. The UAR, Morocco and Sudan expect to be surplus countries by 1970; Tunisia, on the other hand, will have managed to reduce the large import surplus of 1960 to about half by 1970.

53. As far as the group of the three West African countries are concerned, however, the total import ratios will increase from about 18 per cent in 1960, to 19.3 per cent in 1965, and to 20 per cent in 1970; while the corresponding export ratios for the same interval years will be about 15, 16 and 18 per cent respectively. The pattern for Ethiopia is about the same, save that a more rapid development of the external sector is foreseen. For the three interval years, the levels in the import ratios will be 13, 16 and 20 per cent, while the corresponding export ratios will be 11, 14 and 18 per cent respectively.

54. In both cases the development of the external sector is a reversal of the North African case in that there is no global import substitution and that the level of the import surplus which prevailed at the beginning of the decade is carried through to the end of the decade.

55. Here again are differences among these countries. Mali and Nigeria will have the highest external deficits, about 6 and 5 per cent of total resources on the average. Nigeria should decrease its deficit somewhat by the end of the decade; while Ghana intends to maintain the same level of import surplus throughout the decade which is about 4 per cent of aggregate demand.

56. The changes in the ratios of the external sector are reflected in related changes in the ratios of aggregate consumption and gross capital formation. Whatever the target levels of aggregate investment for the interval years are expected to be, the relative decline in aggregate consumption ratio must be faster in countries of group (A) rather than in countries of group (B). This is so because in the case of the latter a large portion of gross domestic capital formation is financed through an import surplus. Secondly, the substantial reduction in the export ratio in group (A) countries entails a substantial diversion of resources for investment and consumption while the reverse is true of group (B) countries.

57. The aggregate investment ratio for group (A) countries stood at 11 per cent in 1960. This is to increase to 14 per cent in 1965 and to 19 per cent in 1970. At the same time, the aggregate consumption ratio should decrease from about 71 per cent in 1960 to about 68 per cent in 1965 and thereafter remains at that level. This implies a greater mobilization of domestic savings in order to increase the level of investment and to reduce the import surplus which financed part of the investment during the first phase; while during the second phase a levelling-off of aggregate consumption ratio combined with a decline in the export ratio makes possible a further increase in the investment ratio. However, there is one country in the group which is a major exception: Sudan. In the case of Sudan, aggregate consumption ratio increases during this period giving rise to a modest decline in aggregate investment.

58. In the case of group (B) countries, the reduction in the aggregate consumption ratio will be quite modest during the period and consequently, the increase in the investment rate is expected to be moderate. Since those countries plan to maintain a steady level of import surplus throughout the period, the changes in the domestic savings ratio will be geared to the changes in the aggregate consumption ratio only.

59. To summarize, the development prospect foreseen by the North African countries is an import substituting-cum-investment biased pattern of growth; while the West African countries and Ethiopia plan for an import and export biased type of development. In the one case growth is generated from within and the domestic savings ratio is expected to increase radically; while in the other case over-all growth is geared to the growth of the external sector. A relative increase in the capacity to import by maintaining a substantial import surplus is basic to their planning.

Chapter II
ANALYSIS OF IMPORTS

60. In this section an attempt is made to provide a summary analysis of the structure of imports during 1956-1960, structural changes of planned imports, and the plans for import substitution in the development plans.

61. The analysis of the composition of imports during 1956-1960 shows that practically all the countries under review with the major exception of the UAR have been spending the greater part of their scarce foreign exchange resources for the imports of consumer goods. The major items in this category are: (1) food, including in some cases food grains and cereals; (2) textiles and shoes; (3) other manufactures.

62. Between 1956 and 1960, food imports formed well above 20 per cent of total imports for many of these countries, with the major exceptions of Nigeria and Ethiopia. In some cases the bulk of this item consists of food grains largely due to the lack of natural resource endowment in some of these countries. This was particularly important in the UAR, Tunisia, Morocco and Sudan.

63. As regards textiles and shoes, it is in the relatively less-developed countries that the import of this item has been important. On the other hand, during 1956-60 in the UAR imports of textiles and shoes formed only 3 per cent of total imports, while Tunisia, Morocco and the Sudan imported about
15 per cent of total imports. For instance, the imports of textiles and shoes in Ghana, Nigeria, and Ethiopia formed 21 per cent, 24 per cent and 25 per cent of total imports respectively.

64. As concerns the imports of raw materials and semi-finished goods, marked differences are again to be found among the more and the less-developed group of countries. The UAR, Tunisia, and Morocco imported 29 per cent, 15 per cent and 26 per cent of raw material and semi-finished goods as per cent of total imports respectively. In the case of Sudan, Ghana and Nigeria this item consisted of 14 per cent, 10 per cent and 12 per cent of their total imports, respectively. Ethiopia’s imports of this item formed 24 per cent during this period. The situation with respect to the imports of machinery and equipment is roughly the same as that of raw materials and semi-finished goods for the two groups of countries. The import of transport equipment in the less-developed group loomed large during this period.

(1) Planned changes in the structure of imports

65. In the earlier section of this paper reference was made to the fact that with the single exception of Sudan, all the countries intend to raise the level of planned capital formation increasing at a much faster rate than the planned aggregate consumption, in their development programmes. This together with the fact that the import content of aggregate investment is much higher than that of consumption should introduce a much more pronounced disparity between the rate of growth of consumer imports and of capital imports. This is, in fact, what is expected to happen in the import plans of the various countries. Table 2 shows the percentage distribution of imports for the beginning year and end year of the plans. Imports have been roughly classified into consumer goods, raw materials and goods in process, and capital goods.

66. As the table shows, imports of consumer goods consist of roughly 50 per cent of total imports at the beginning of the plans with the major exception of the UAR. In the case of the UAR, about 85 per cent of total imports consisted of semi-finished and capital goods, while the rest of the group spent less than 50 per cent of total foreign exchange resources on semi-finished and capital goods imports at the beginning of their plan periods. According to the planned projections, however, all the countries with the exception of Sudan intend to reduce their imports of consumer goods relative to total imports. The planned increase of consumer goods imports in Sudan tallies with the relative increase in planned aggregate consumption referred to in the earlier parts of this paper.

67. The UAR plans to decrease consumer goods imports from 15 per cent to 14 per cent of total imports between 1959, 1960, and 1964/65. Sudan plans to increase consumer imports from 50 per cent to 58 per cent of total imports between 1960/61-1970/71. The rest of the group, particularly Morocco, Tunisia, Ghana, and Ethiopia, plan to reduce consumer imports substantially. By contrast, the relative decrease which Nigeria proposes to carry out is modest.

68. As regards planned imports of raw materials and other semi-finished goods, a few of these countries are intending to reduce this item, while others to increase it relative to total imports. The UAR, Tunisia, and Morocco plan to reduce the imports of intermediate goods, while Sudan, Ghana, and Ethiopia are expected to increase this item relative to their total imports. Nigeria also intends to reduce the imports of raw materials and consumer goods in the aggregate. This is due to a change in one major item, namely the reduction in fuel imports, because Nigeria plans to commence the processing of oil by 1955. Changes in the increases and decreases of this item reveal the difference between the relatively developed and under-developed group of countries. In the case of the former, despite the fact that these countries are planning to curtail aggregate imports considerably, a substantial reduction in the imports of semi-finished goods and raw materials is contemplated. This implies that import substitution is planned to take place not only in the sphere of consumer goods but also in semi-finished goods; while in the less-developed group of countries, we should expect import substitution to take place only as regards consumer goods.

Table 3

Planned changes in the composition of imports in selected countries

(Share in percentage)

<table>
<thead>
<tr>
<th>Countries</th>
<th>Beginning of the plan</th>
<th>End of the plan</th>
<th>Plan period</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Consumer goods</td>
<td>Raw materials and goods in process</td>
<td>Capital goods</td>
</tr>
<tr>
<td>1. UAR</td>
<td>15</td>
<td>52</td>
<td>34</td>
</tr>
<tr>
<td>2. Tunisia</td>
<td>49</td>
<td>32</td>
<td>19</td>
</tr>
<tr>
<td>4. Sudan</td>
<td>50</td>
<td>18°</td>
<td>32°</td>
</tr>
<tr>
<td>5. Ghana</td>
<td>57</td>
<td>17</td>
<td>27</td>
</tr>
</tbody>
</table>

Source: see Appendix B.

Notes: Total may not add up to 100 owing to rounding.

° Raw materials other than building materials.

® Building materials and equipment.

* Excluding "other imports" which were 4 per cent in 1960 and 13 per cent in 1967.
The relative increase in capital imports is much more pronounced in those countries whose imports of both consumer goods and semi-finished goods are planned to decline; and much less pronounced in those countries where only the imports of consumer goods are planned to decline.

Consequently, the planned capital imports of the UAR, Tunisia and Morocco are relatively large owing to the fact that consumer goods and raw material imports are together declining; whereas in the rest of the group, the relative increase in capital imports is much less pronounced because these countries are also planning to increase their import of semi-finished goods. In the case of Sudan, capital imports are in fact planned to decline reflecting a relative increase in the other two items. Ethiopia plans for relatively large capital imports since consumer imports are expected to decline considerably.

These changes in the planned structure of imports are intimately related to the planned diversification of the economies generally and to the industrialization programmes in particular.

Unfortunately, the distribution of capital imports by sector of economic activity is only given in the case of two countries—namely, the UAR and Tunisia. For the rest, information is available only for the planned distribution of aggregate investment by sector of economic activity. The broad allocation of investment does show, however, which sectors are the largest recipient of capital imports. With this in view, two tables have been constructed: one on the allocation of total investments and the other on the expected changes in the structure of domestic output by the end of the planned period. These two tables together give an idea of the rough distribution of capital imports by sectors and the composition of domestic output. Broadly speaking, the allocation of aggregate investment planned by these countries is oriented in favour of the commodity producing sectors, particularly for the development of manufacturing industry.

Of the total planned aggregate invested during the planned period, the UAR intends to spend 27 per cent, Tunisia 19 per cent, Morocco 15 per cent and Ethiopia 19 per cent on the development of manufacturing industries, while Sudan, Nigeria, Ghana and Mali plan 14 per cent, 13 per cent, 11 per cent and 6 per cent of total investment, respectively. The planned annual rates of growth for manufacturing industry expected by these countries are: UAR 14 per cent; Tunisia 14 per cent; Morocco 10 per cent; Ethiopia 13 per cent and Ghana 8 per cent. These rates of growth for net manufacturing output are well above the annual rates of growth of the gross domestic products and are expected to result in significant structural changes.

Morocco plans to increase its net manufacturing output from 11.5 to 15.7 per cent of its gross domestic products between 1960 and 1965; the UAR plans to increase it from 18.6 per cent to 25.1 per cent between 1960 and 1965; Tunisia from 11.3 per cent to 15.2 per cent between 1960 and 1964; and Ethiopia from 5.3 per cent to 8.0 per cent between 1962 and 1967. Unfortunately data is not separately available for Sudan, Ghana and Mali. The indications are that Sudan intends to develop the manufacturing industry relatively faster than Ghana. These significant changes in the output of the manufacturing industry relative to the growth of the economies as a whole signify the greater emphasis that is being placed by African Governments on import substituting type of development.

The UAR industrial plan places special emphasis on the development of oil and chemical industry, metals and machinery, and paper and printing. The UAR plans to shift the emphasis on industrial production from food, textiles and ginning, to chemicals, oils, metals and machinery. The Tunisian industrial plan gives priority to the development of the chemical industry, petroleum production, and metallurgical industry; less emphasis is given to the production of food and textiles reflecting the present structure of manufacturing industry in Tunisia which is largely dominated by these items. Similarly the Moroccan plan gives priority to the chemical industries, production of textiles and shoes and food processing.

The planned shift of the structure of input away from the less productive sectors of the economy to the commodity sectors, and particularly manufacturing output, means that on the whole capital imports will increase since these are the capital intensive industries. On the other hand, the emphasis on industrialization with a view to producing the kind of finished products that were normally imported before the development plans were introduced means that most of these countries are undertaking an import substituting type of development. The degree of substitution depends, however, on the significance of total imports in aggregate production and also on the initial composition of imports. For example, in the case of the more developed group of countries, the proportion of consumer imports at the beginning of their plan periods was much less than the less developed group of countries. This means that the industrialization programmes of the less developed group of countries will largely substitute consumer imports in the first instance, while the more developed group is in a position to substitute the imports of semi-finished goods and raw materials as well as consumer goods. This explains, as shown in Part I of this paper, that a net import-substitution effect was implied in the development programmes of the more developed group; while a net import-biased effect was implied in the corresponding programmes of the less developed group of countries.

**(2) Import substitution**

77. It has been possible to indicate in a general way, both on the basis of planned imports and the industrialization schemes which these countries intend to pursue, the extent to which import substitution is planned to take place. Adequate information is not yet available for many of these countries to enable a detailed analysis of import substitution.
78. As far as the UAR, Tunisia, and Morocco are concerned, however, complete information is available regarding the development of imports by sectors of economic activity. This largely reflects the elaborate way in which the plans have been worked out. It is, therefore, possible to see at any rate for these three countries, product by product, the degree of import substitution. In order to do this a set of tables has been elaborated showing imports as percentage of total resources available at the beginning and end of the plan periods for each sector of economic activity. Changes in these coefficients should indicate import replacement by sectors.

79. As Table 6 shows, the UAR plans to carry out an import substitute programme for practically all the items, except drink, clothing and furniture items, which in themselves are relatively insignificant in the total import programme. The most significant items in the total UAR imports in 1959/60 were food grains, and cereals 17.5 per cent; chemicals 11.5 per cent and metal products 10.4 per cent. During the plan period, the import coefficient of food grains and cereals will decline from 7.3 to 6.1 per cent. The import coefficient of chemicals will decline from 52 per cent to 20 per cent, and the import coefficient of metal products will decline from 92 per cent to 63 per cent. This means that the import substitutes for the semi-finished goods, i.e., chemicals and metals is an import programme of the UAR planned development.

80. In the case of Tunisia, the import coefficient in Table 7 shows that all the items except food grains and cereals, extractive industries, wood and furniture, petroleum products, and transport equipment decline relatively to total resources. The major items which show a considerable decline are textiles and clothing, paper and printing, chemicals and non-metallic minerals. The Tunisian industrial plan, therefore, is an import substituting plan for all the major items.

81. Similarly Table (8) shows that the Moroccan industrial plan likewise envisages import substitution for all the items except that of machinery and electrical equipment. The most important components of Moroccan imports in 1960 were agricultural products, 10.6 per cent; processed food, 15.9 per cent; machinery and electrical equipment, 29.1 per cent; textiles and shoes, 15 per cent; chemicals and rubber, 10.0 per cent of total imports.

82. According to the import coefficients thus computed, agricultural products will decline from 10 to 9 per cent; foodstuffs from 17 to 15 per cent; fuels from 31 to 21 per cent; textiles from 31 to 21 per cent; chemicals from 59 to 28 per cent. The analysis of import coefficients contained in these tables enable us to confirm the conclusion arrived at earlier in this section on the basis of planned changes in the structure of imports that the three North African countries will be self-sufficient in the production of semi-finished goods in the not too distant future.

83. We have seen in the previous pages that the development plans intend to increase the capacity to import if the urgently needed raw materials and capital goods are to be secured and if they are to establish the various processing industries which are destined to play a very important role in the import substitution programmes.

84. The capacity to import depends on the levels of exports and external aid. Many countries have started with a large import surplus. It has been difficult for some of them to reduce it considerably if they wish to maintain the pace of economic development that is desired. None the less many of these countries plan to expand exports relatively higher than imports, both in order to reduce the import surplus and to increase their capacity to import. The most important consideration attaches therefore to the nature of export products and the trend in the prices of these products.

85. The exports of the countries under consideration are primary products largely of agricultural origin and the prices of these products have been declining in the immediate past. This trend is likely to continue for the future. The second feature of African exports is that in most cases one or two commodities form 60 to 80 per cent of total exports. A decline in the prices of a leading export staples has and will cause a considerable slowing down of the pace of economic development of many of these countries.

86. Awareness of these factors has played a very important role in the planning of African exports generally. In working out their export plans, the African countries have made an attempt to make realistic projections of the main staples. They are also making an attempt to reduce the significance of these main staples in total exports. This is done by diversifying the economy as a whole and creating new export items with relatively high income elasticities.

(2) Projections of main export staples

87. Among the countries under review those that have a more diversified structure of exports are Nigeria, Morocco and Tunisia. The UAR, Mali, Ghana and Sudan are still dependent on single crops for the greatest part of their foreign exchange earnings.
88. In order to appraise the planned changes in the significance of traditional export staples two sets of computations were made. (1) The significance of export staples during the period 1956-1960 and the rates of growth of these staples; (2) the significance of the same staples estimated for the beginning year and end years of the plan periods.

89. The percentage of the main staples in total exports is thus summarized in Table 4.

90. The table shows that during the period 1956-1960 cotton formed 71 per cent of total exports in the UAR, cocoa formed 65 per cent in Ghana; coffee formed 59 per cent in Ethiopia and cotton formed 58 per cent of Sudan's exports. These monoculture economies depend on single crops to the extent of some 60 per cent of total exports. The others, including Nigeria, Morocco and Tunisia are not to this extent dependent on single export items. The leading export items in these countries range between 15 and 20 per cent of total exports.

91. As will be seen later, Tunisia and Morocco intend to diversify their exports still further while Nigeria will, in addition to the 7 export items which are fairly evenly distributed, export oil which is destined to be the leading foreign exchange earner by the end of the plan.

92. This imbalance in the structure export has caused most of these countries to reduce the relative significance of their exports in their development plans. The UAR exports of cotton will decrease from 67 per cent to 54 per cent between 1959/60 and 1964/65. Cotton exports are planned to increase at the rate of 2.3 per cent per annum. This planned rate of growth for the UAR leading staple compares with a 6 per cent planned increase for total commodity exports, which makes for a rapid relative decline of the leading staple in relation to total exports. Mention should be made of the fact that the export of the UAR cotton was increasing at a rather high rate of growth between 1956 and 1960. This is due to the steady increase in quality rather than price increases during this period.

93. Between 1956/60, cocoa formed about 65 per cent of the total export earnings in Ghana. During this period the value of cocoa export earnings was steadily increasing. The price fluctuated but this was compensated by the significant increases in the tonnage of cocoa exports during the last years, so that the value of receipts from cocoa were increasing at 7 per cent per year.

94. In 1962/63 Ghana’s cocoa formed about 58 per cent of total exports. According to the projections made by the plan, cocoa is expected to increase at the rate of 5.2 per cent annually which is rather low in relation to a 7 per cent increase for total exports. This means that by the end of the plan period cocoa will form only 51 per cent of total exports.

95. Sudan’s cotton exports formed 58 per cent of total exports during 1956-1960. As is well known the quantity of Sudan’s exports began to drop radically in 1956 and it was steadily recovering since that date and particularly since 1961.

96. In 1960/61, 64 per cent of Sudan’s exports consisted of cotton. By 1970/71 it is planned that 61 per cent of total exports will consist of this item. The rate of growth of cotton exports during this period will not exceed 4 per cent compared to the expected growth for total exports which is 4.7 per cent. In the case of Sudan, the diversification programme is not a radical one. Cotton will still form about 60 per cent of total exports by the end of the decade.

97. Ethiopian coffee exports formed about 59 per cent of total exports during the 1956-1960 period. Although the price of coffee was steadily diminishing during this period the quantity exported was also steadily on the increase and consequently coffee earnings were modestly increasing.

98. In 1961/62 coffee exports formed 51 per cent of total exports and this is planned to be reduced to 41 per cent by the end of the plan. The exports of coffee are expected to increase by 6.3 per cent compared to a 10 per cent increase in total exports. This marked relative decline in coffee exports is due to the expected increase in processed food exports which will be referred to later. The above summary discussion of plans for the main staples suggests that

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Table 4: Projections of main export staples

<table>
<thead>
<tr>
<th>Country</th>
<th>Item</th>
<th>Per cent of total average 1956/60</th>
<th>Per cent annual increase 1956/60</th>
<th>Per cent of base year</th>
<th>Per cent annual increase per cent of end year</th>
<th>Plan projection for total commodity exports</th>
<th>Per cent annual increase plan</th>
<th>Plan period</th>
</tr>
</thead>
<tbody>
<tr>
<td>UAR</td>
<td>Cotton, raw</td>
<td>71</td>
<td>8.0</td>
<td>66.6</td>
<td>54.7</td>
<td>2.3</td>
<td>1959/60-1964/65</td>
<td></td>
</tr>
<tr>
<td>Tunisia</td>
<td>Olive oil</td>
<td>16</td>
<td>7.0</td>
<td>21.0</td>
<td>13.6(17.3)*</td>
<td>6.8</td>
<td>1961/64</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Wine</td>
<td>14</td>
<td>-3.8</td>
<td>17.2</td>
<td>14.7(7.8)*</td>
<td>0.6</td>
<td>(1965/71)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Phosphates</td>
<td>13</td>
<td>18.0</td>
<td>12.8</td>
<td>11.3(8.1)*</td>
<td>4.1</td>
<td>(1965/71)</td>
<td></td>
</tr>
<tr>
<td>Morocco</td>
<td>Phosphates</td>
<td>22</td>
<td>5.6</td>
<td>21.1</td>
<td>22.2</td>
<td>7.5</td>
<td>1960-1965</td>
<td></td>
</tr>
<tr>
<td>Ethiopia</td>
<td>Coffee</td>
<td>59</td>
<td>3.5</td>
<td>51.0</td>
<td>41.1</td>
<td>6.3</td>
<td>1961/62-1966/67</td>
<td></td>
</tr>
<tr>
<td>Ghana</td>
<td>Cocoa</td>
<td>65</td>
<td>6.8</td>
<td>57.6</td>
<td>51.3</td>
<td>5.2</td>
<td>1962/63-1969/70</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Ground-nuts</td>
<td>17.5</td>
<td>-6.0</td>
<td>—</td>
<td>—</td>
<td>2.5</td>
<td>(1965/71)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Palm-kernels</td>
<td>15.5</td>
<td>5.3</td>
<td>—</td>
<td>—</td>
<td>?</td>
<td>(1965/71)</td>
<td></td>
</tr>
<tr>
<td>Sudan</td>
<td>Cotton ginned</td>
<td>58.0</td>
<td>-8.0</td>
<td>63.9</td>
<td>61.0</td>
<td>4.0</td>
<td>1960/61-1970/71</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Gum-arabic</td>
<td>19.0</td>
<td>9.3</td>
<td>7.6</td>
<td>6.6</td>
<td>2.8</td>
<td>(1965/71)</td>
<td></td>
</tr>
</tbody>
</table>

these countries are planning a diversification programme for their exports.

(3) DIVERSIFICATION

99. The main reason for the diversification programme is, as was referred to earlier, that the traditional dependence on the export of a single crop or a few commodities whose prices have been declining in the past cannot be relied on to form an adequate basis for an orderly economic development. With the decline in prices of primary products and the development of substitutes in the advanced countries, preference is increasingly being given by these countries to the export of other items with a relatively high income elasticity. The extent of the diversification programme depends on the availability of a wide range of resources and the level of development already attained. The more developed countries—including the UAR, Tunisia and Morocco—have moved a considerable extent away from the export of primary products to the export of semi-processed and manufactured articles. It must be realized these countries have a relatively developed industrial base. For instance, the level of net manufacturing output in total gross product is above 10 per cent in these countries while in the less developed group it is between 4 and 6 per cent. As mentioned earlier among the less-developed group Nigeria is the only country with a relatively wide range of raw materials that have formed the basis of her diversification programme. The production of refined oil planned to take place by 1965 will add considerably to foreign exchange resources of the country. In addition, the prices of rubber and timber are expected to increase as well as the prices of tin and columbite. Against this must be set, of course, the expected decline in the prices of palm oil and ground-nuts. Assuming that domestic costs are reasonably competitive, Nigeria's export prospects are reasonable.

100. The Ethiopian plan foresees a radical change in the future composition of the country's exports. This is due to the export of processed food items including processed meat, sugar and edible oils. Between 1961/62 and 1966/67 the projected value of this item will increase from 3.8 per cent to 19 per cent. The exports of related products such as leather products will also increase substantially. Another new item which Ethiopia plans to export in substantial quantities is potash. Ethiopia's outlook, both for the export of raw material and processed products based on domestic raw material, appears to be sufficiently favourable.

101. The two countries that would appear to be limited in the endowment of a sufficiently wide raw material base are Ghana and Sudan.

102. In the case of Ghana, the exports of timber and aluminium are planned to increase relative to total imports. The former are expected to increase from 12.3 per cent of total exports in 1962 to 16.4 per cent of total exports in 1969, increasing at about 11.4 per cent per year. The export of aluminium will be a new item which will be substantial by the end of the plan forming about 7 per cent of total exports. The other four stable export items including gold, manganese and diamond are expected to decline. The increases in timber and aluminium will not materially change the significance of cocoa export in total exports by the end of the period.

103. Sudan's composition of exports is to all intents and purposes expected to remain the same by 1970 as it was at the beginning of the decade. The only relative increase expected is in the substantial increase in ground-nuts. But as ground-nuts was a minor item, increasing from 7.9 to 11.2 per cent, it does not change the significance of cotton exports.

104. The UAR diversification programme is based on the relative increase of the following items, viz., textiles yarn clothing, rice and phosphates. The annual increase for these items is expected to be 9.5, 10.5, 25 and 13 per cent respectively. But all these items are relatively minor items except the textiles and clothing group which should increase from 10 per cent to 12 per cent during the plan period. Rice exports are expected to increase from 2 per cent to 5 per cent.

105. Morocco has perhaps the most diversified structure of exports. All the major export items that are expected to increase relatively total exports are: phosphates, iron ore, zinc, textiles and shoes, mechanical and electrical equipment and chemicals. Iron ore, zinc, machinery and equipment will have the fastest rates of growth. Exports of cereals are expected to decline somewhat from 35 per cent to 33 per cent of total exports during the plan period, while exports of minerals are expected to decline from 38 per cent to 35 per cent between 1960 and 1965. The relative decrease of mineral and agricultural exports will be reflected in the relative increase in the export of manufactures. The export of manufactures will increase from 11.4 per cent in 1960 to 17.3 per cent in 1965.

106. Tunisia's exports are not expected to increase during the first plan period. Many of these items, however, are either raw materials or processed food. According to 1962-1971 perspective plan estimates, Tunisia should expand her total exports considerably and the exports items like chemicals are expected to be quite significant.

107. As is readily seen from the above analysis, many of the countries are still facing two sets of problems. The one concerns a chronic resource imbalance which limits the range of their exports to one or two agricultural products for a long time to come, e.g., cotton in Sudan and cocoa in Ghana. The other concerns the level of economic development particularly industrial development. The countries just embarking on economic development will confine their exports for some time to come, to primary products only, since industrial development in the first phase will be largely import substituting. Manufacturing output will have to reach a sufficiently high level for it to be export biased. This seems to be the stage which the North-African countries are just entering. Under-development combined with the lack of a sufficiently wide range of resources are the main constraints to the possibility of increase and diversification of exports in many of these countries.
### Appendix Table 1

Supply and utilization of resources in selected development plans

(Total resources in US dollars and composition in percentages)

<table>
<thead>
<tr>
<th>Country</th>
<th>Plan period</th>
<th>Beginning year of plan</th>
<th>End year of plan</th>
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</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Supply</td>
<td>Utilization</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Total resources</td>
<td>GDP</td>
</tr>
<tr>
<td>Tunisia</td>
<td>1961-64</td>
<td>8,420</td>
<td>83</td>
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<td>Morocco</td>
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<td>2,061</td>
<td>79</td>
</tr>
<tr>
<td>Sudan</td>
<td>1960-70</td>
<td>1,340</td>
<td>83</td>
</tr>
<tr>
<td>Mali</td>
<td>1962-67</td>
<td>319</td>
<td>80</td>
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<td>Ghana</td>
<td>1963-69</td>
<td>2,013</td>
<td>78</td>
</tr>
<tr>
<td>Nigeria</td>
<td>1960-67</td>
<td>3,751</td>
<td>83</td>
</tr>
<tr>
<td>Ethiopia</td>
<td>1962-67</td>
<td>983</td>
<td>87</td>
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</table>

Source: Development Plans.

### Appendix Table 2

Contribution of external resources to planned gross investment

<table>
<thead>
<tr>
<th>Country</th>
<th>Plan period</th>
<th>Total planned gross investment (in US $ millions)</th>
<th>External resources as per cent of gross investment</th>
</tr>
</thead>
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<tr>
<td>Morocco</td>
<td>1960-64</td>
<td>1,545</td>
<td>10</td>
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<tr>
<td>Tunisia</td>
<td>1962-64</td>
<td>643</td>
<td>57</td>
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<td>UAR</td>
<td>1960-65</td>
<td>5,796</td>
<td>40</td>
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<td>Sudan</td>
<td>1961-71</td>
<td>1,624</td>
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<td>Ghana</td>
<td>1963-70</td>
<td>2,352</td>
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<tr>
<td>Mali</td>
<td>1965-66</td>
<td>259</td>
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<td>Nigeria</td>
<td>1962-68</td>
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### Appendix Table 3

Estimated composition of resources

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<tr>
<th>Country</th>
<th>1960</th>
<th>1965</th>
<th>1970</th>
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<tr>
<td></td>
<td>Supply</td>
<td>Utilization</td>
<td>Supply</td>
</tr>
<tr>
<td></td>
<td>Total resources</td>
<td>GDP</td>
<td>Imports</td>
</tr>
<tr>
<td>UAR</td>
<td>4,543</td>
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<td>Tunisia</td>
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<td>76</td>
<td>24</td>
</tr>
<tr>
<td>Morocco</td>
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<td>79</td>
<td>21</td>
</tr>
<tr>
<td>Sudan</td>
<td>1,340</td>
<td>83</td>
<td>17</td>
</tr>
<tr>
<td>Sub-Total</td>
<td>8,776</td>
<td>82</td>
<td>18</td>
</tr>
<tr>
<td>Mali</td>
<td>291</td>
<td>83</td>
<td>17</td>
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<tr>
<td>Ghana</td>
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<td>Nigeria</td>
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<td>17</td>
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<tr>
<td>Sub-Total</td>
<td>5,828</td>
<td>81</td>
<td>19</td>
</tr>
<tr>
<td>Ethiopia</td>
<td>983</td>
<td>87</td>
<td>13</td>
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</table>

* Value in millions of US dollars at 1960 conversion factor.
## APPENDIX TABLE 4

### Allocation of total planned investment by sectors in selected countries

(*Value in millions of US dollars and percentage composition*)

<table>
<thead>
<tr>
<th>Items</th>
<th>UAR Value</th>
<th>Percentage allocations</th>
<th>Tunisia Value</th>
<th>Percentage allocations</th>
<th>Morocco Value</th>
<th>Percentage allocations</th>
<th>Sudan Value</th>
<th>Percentage allocations</th>
</tr>
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<tbody>
<tr>
<td>Agricultural</td>
<td>965</td>
<td>21</td>
<td>290</td>
<td>44</td>
<td>179</td>
<td>12</td>
<td>345</td>
<td>21</td>
</tr>
<tr>
<td>Mining</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>136</td>
<td>9</td>
<td>13</td>
<td>1</td>
</tr>
<tr>
<td>Electricity, gas and water</td>
<td>447</td>
<td>10</td>
<td>29</td>
<td>4</td>
<td>44</td>
<td>3</td>
<td>46</td>
<td>3</td>
</tr>
<tr>
<td>Manufacturing and handicraft</td>
<td>1 253</td>
<td>27</td>
<td>124</td>
<td>19</td>
<td>221</td>
<td>15</td>
<td>219</td>
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<tr>
<td>Construction</td>
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<td>59</td>
<td>9</td>
<td>234</td>
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<td>30</td>
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<tr>
<td>Transport</td>
<td>673</td>
<td>14</td>
<td>56</td>
<td>9</td>
<td>143</td>
<td>9</td>
<td>181</td>
<td>11</td>
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<tr>
<td>Trade and commerce</td>
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<td>15</td>
<td>2</td>
<td>35</td>
<td>2</td>
<td>92</td>
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<td>Housing</td>
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<td>9</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>236</td>
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<td>105</td>
<td>7</td>
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<tr>
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<td>1</td>
<td>8</td>
<td>1</td>
<td>17</td>
<td>1</td>
<td>24</td>
<td>2</td>
</tr>
<tr>
<td>Administration of defence</td>
<td>26</td>
<td>1</td>
<td>67</td>
<td>10</td>
<td>11</td>
<td>1</td>
<td>67</td>
<td>4</td>
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<tr>
<td>Other services</td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td>268</td>
<td>17</td>
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<tr>
<td><strong>Total</strong></td>
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<td>88</td>
<td>660</td>
<td>100</td>
<td>1 076</td>
<td>71</td>
<td>1 624</td>
<td>100</td>
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<table>
<thead>
<tr>
<th>Items</th>
<th>Mali Value</th>
<th>Percentage allocations</th>
<th>Ghana Value</th>
<th>Percentage allocations</th>
<th>Nigeria Value</th>
<th>Percentage allocations</th>
<th>Ethiopia Value</th>
<th>Percentage allocations</th>
</tr>
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<tr>
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<td>190</td>
<td>8</td>
<td>257</td>
<td>14</td>
<td>146</td>
<td>21</td>
</tr>
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<td>Mining</td>
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<td>50</td>
<td>2</td>
<td></td>
<td></td>
<td>30</td>
<td>4</td>
</tr>
<tr>
<td>Electricity, gas and water</td>
<td></td>
<td></td>
<td>100</td>
<td>4</td>
<td>353</td>
<td>19</td>
<td>23</td>
<td>3</td>
</tr>
<tr>
<td>Manufacturing and handicraft</td>
<td>16</td>
<td>6</td>
<td>263</td>
<td>11</td>
<td>253</td>
<td>13</td>
<td>130</td>
<td>19</td>
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<tr>
<td>Construction</td>
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<tr>
<td>Transport</td>
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<td>487</td>
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<td>127</td>
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<td>Trade and commerce</td>
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<td>12</td>
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<td>Housing</td>
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<td></td>
<td>101</td>
<td>15</td>
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<td>Education</td>
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<td>2</td>
<td>179</td>
<td>8</td>
<td></td>
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<td>12</td>
<td>2</td>
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<tr>
<td>Health</td>
<td>12</td>
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<td>87</td>
<td>4</td>
<td>48</td>
<td>3</td>
<td>16</td>
<td>2</td>
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<tr>
<td>Administration of defence</td>
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<td>5</td>
<td>70</td>
<td>3</td>
<td>138</td>
<td>7</td>
<td>12</td>
<td>2</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>259</td>
<td>100</td>
<td>1 363</td>
<td>58</td>
<td>1 895</td>
<td>100</td>
<td>623</td>
<td>91</td>
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</table>

<table>
<thead>
<tr>
<th>Items</th>
<th>Mali Value</th>
<th>Percentage allocations</th>
<th>Ghana Value</th>
<th>Percentage allocations</th>
<th>Nigeria Value</th>
<th>Percentage allocations</th>
<th>Ethiopia Value</th>
<th>Percentage allocations</th>
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<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td><strong>Grand Total</strong></td>
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<td>100</td>
<td>2 352</td>
<td>100</td>
<td>1 895</td>
<td>100</td>
<td>683</td>
<td>100</td>
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</table>

*Public investment only; total, including private investment: $US3 313 million.*
## Appendix Table 5

Changes in the structure of planned production by sector (Percentage shares and annual rate of growth)

<table>
<thead>
<tr>
<th>Sectors</th>
<th>Morocco</th>
<th>Tunisia</th>
<th>UAR</th>
<th>Sudan</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>1959/60</td>
<td>1960/64</td>
<td>1960/64</td>
<td>1959/60 to 1960/61</td>
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<tr>
<td>GDP</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>GDP per cent annual increase</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

1. Agriculture                  | 32      | 29      | 32   | 32     | 31      | 57      | 51   | 4 |
2. Mining                       | 7       | 6       | 3    | 4      | 2       | 4       | 27   |   |
3. Electricity, water, gas      | 2       | 3       | 2    | 2      | 1       | 2       | 13   |   |
4. Manufacturing, handicrafts   | 12      | 16      | 10   | 11     | 15      | 14      | 27   |   |
5. Construction                 | 4       | 6       | 16   | 5      | 12      | 27      | 5    |   |

Total commodity sectors (1-5)   | 59      | 60      | 7    | 53     | 54      | 6       | 57   | 9 |
6. Transport, storage, comm.    | 4       | 4       | 8    | 7      | 7       | 6       | 8    | 4 |
7. Trade and commerce           | 23      | 23      | 6    | 18     | 23      | 13      | 10   | 5 |
8. Ownership dwellings           | 7       | 6       | 3    | 7      | 8       | 13      | 6    | 3 |

Total economic services (6-8)   | 34      | 33      | 5    | 32     | 37      | 13      | 23   | 4 |
9. Public and other services    | 8       | 8       | 6    | 15     | 8       | 48      | 10   | 5 |

Total all sectors               | 100     | 100     | 6    | 100    | 100     | 8       | 100  | 7 |

<table>
<thead>
<tr>
<th>Ghana</th>
<th>Mali</th>
<th>Ethiopia</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>GDP</td>
<td>GDP</td>
</tr>
<tr>
<td></td>
<td>Per cent annual increase</td>
<td>Per cent annual increase</td>
</tr>
</tbody>
</table>

1. Agriculture                  | 49      | 48      | 6    | 69     | 63      | 6       | 69   | 63   | 2 |
2. Mining                       | 5       | 5       | 7    | —      | —       | —       | —    | —    | 53 |
3. Electricity, water, gas      | —      | —      | —    | 1      | 3       | 25      | —    | 1    | 19 |
4. Manufacturing handicrafts    | 25      | 28      | 8    | —      | —       | —       | 5    | 8    | 13 |
5. Construction                 | 2       | 2       | 13   | 2      | 2       | 13      | 2    | 3    | 10 |

Total commodity sectors (1-5)   | 79      | 81      | 6    | 72     | 68      | 7       | 77   | 75   | 4 |
6. Transport, storage, comm.    | —      | —      | —    | 7      | 8       | 11      | 5    | 6    | 7 |
7. Trade and commerce           | —      | —      | —    | 19     | 22      | 11      | 8    | 7    | 6 |
8. Ownership dwellings           | —      | —      | —    | —      | —       | —       | 1    | 1    | 7 |

Total economic services (6-8)   | —      | —      | —    | 26     | 30      | 11      | 15   | 16   | 6 |
9. Public and other services    | —      | —      | —    | 1      | 1       | 15      | 8    | 9    | 7 |

Total all sectors               | 100     | 100     | 6    | 100    | 100     | 9       | 100  | 100  | 4 |

*a Education, health, administration of defence and other services.

*b Total includes "direct investment".
### APPENDIX TABLE 6

UAR imports and exports as percentage of total resources by sector

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<tr>
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<th>1964/65</th>
<th></th>
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<td>Exports</td>
<td>Imports</td>
<td>Exports</td>
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<tr>
<td>Agriculture</td>
<td>7</td>
<td>6</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Cotton</td>
<td>—</td>
<td>—</td>
<td>74</td>
<td>68</td>
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<td>Food</td>
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<td>2</td>
<td>3</td>
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<tr>
<td>Beverages</td>
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<td>8</td>
<td>—</td>
<td>3</td>
</tr>
<tr>
<td>Tobacco</td>
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<td>—</td>
<td>1</td>
<td>8</td>
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<tr>
<td>Minerals</td>
<td>31</td>
<td>18</td>
<td>15</td>
<td>—</td>
</tr>
<tr>
<td>Cotton yarn and clothing</td>
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<td>11</td>
<td>2</td>
<td>5</td>
</tr>
<tr>
<td>Wood and furniture</td>
<td>36</td>
<td>11</td>
<td>34</td>
<td>6</td>
</tr>
<tr>
<td>Paper and printing</td>
<td>30</td>
<td>27</td>
<td>8</td>
<td>12</td>
</tr>
<tr>
<td>Leather and rubber</td>
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<td>111</td>
<td>15</td>
<td>22</td>
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<tr>
<td>Chemicals</td>
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<td>20</td>
<td>8</td>
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<tr>
<td>Petroleum products</td>
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<td>3</td>
<td>6</td>
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<tr>
<td>Non-metallic materials</td>
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<td>8</td>
<td>6</td>
<td>10</td>
</tr>
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<td>Metals and metal products</td>
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<td>39</td>
<td>1</td>
</tr>
<tr>
<td>Non-electric apparatus</td>
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<td>14</td>
<td>—</td>
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<tr>
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</tr>
<tr>
<td>Transport</td>
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<td>1</td>
<td>29</td>
<td>2</td>
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<td>Other industries</td>
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<td>Sub-total</td>
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<tr>
<td></td>
<td>13</td>
<td>9</td>
<td>8</td>
<td>8</td>
</tr>
<tr>
<td>Total</td>
<td></td>
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</tr>
</tbody>
</table>

### APPENDIX TABLE 7

Tunisia: Percentage share of imports and exports in total resources, 1964 and 1971

<table>
<thead>
<tr>
<th>Item</th>
<th>1964 Total(^a)</th>
<th>Percentage share of %</th>
<th>1971 Total(^a)</th>
<th>Percentage share of %</th>
</tr>
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<tr>
<td></td>
<td>Imports</td>
<td>Exports</td>
<td>Imports</td>
<td>Exports</td>
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<td>10.0</td>
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<tr>
<td>3. Food products</td>
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<tr>
<td>4. Drinks</td>
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<td>1.5</td>
<td>68.4</td>
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<td>5. Tobacco</td>
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<td>—</td>
<td>1.8</td>
</tr>
<tr>
<td>6. Textile</td>
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\(^a\) Value in millions of US dollars at 1960 conversion factor.
Morocco: Estimated growth of resources, 1960-1965
(In billions of francs and percentages)

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<td>301</td>
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APPENDIX B

SOURCES


INTERGOVERNMENTAL CO-OPERATION IN MARKET RESEARCH AND MARKETING ADVISORY SERVICES TO HELP EXPAND EXPORTS FROM DEVELOPING COUNTRIES

1. This paper examines the need for intergovernmental co-operation in market research and market advisory services as a means of helping the developing countries expand their exports, particularly of manufactured and semi-manufactured goods. It concludes that a programme of intergovernmental co-operation in this field could usefully take the form of (a) the establishment of market research and market advisory services by the governments of developed countries in order to promote imports into their territories from the developing countries and (b) intensified measures of technical and financial assistance under United Nations auspices to assist the developing countries in improving their own export promotion services.

THE NEED FOR INTERGOVERNMENTAL CO-OPERATION IN MARKET RESEARCH AND MARKET ADVISORY SERVICES AS A MEANS OF EXPANDING EXPORTS FROM THE DEVELOPING COUNTRIES

2. On the enterprise level the need for market research and market advisory services as a basis for operational decisions regarding production and investment is generally appreciated. On the governmental level, the need for market information in order to promote exports has been recognized as a central public responsibility and almost all governments irrespective of their economic systems have set up export promotion and commercial representation services which systematically obtain and provide data on foreign market conditions. But a gap exists particularly as regards the export promotion resources available to the developing countries. The governments of these countries, seeking to hasten their economic growth by finding new export opportunities in foreign lands, are in need not only of general market information but of market research and advisory services both as a basis for their national planning of investments and as a basis for their export promotion efforts.

3. Despite the large amount of general information available on market conditions—and indeed to some extent because of the large amount available—market research and market advisory services are difficult to provide and are costly. The burden of obtaining such services is especially severe for the governments of developing countries. As was indicated in the statement presented by the Government of Brazil to the meeting of GATT Committee III held on 10 October 1962:

"The less-developed countries do not have the financial resources to enable them to maintain the type of extensive trade information and trade commissioner services which the industrialized countries, particularly the more important trading countries, normally have. Thus, the exporter in the less-developed countries is placed at a disadvantage when seeking outlets for his products, particularly when attempting to break into new markets."

4. The need for such market research and market advisory services is particularly great at the present time when new trading arrangements are modifying existing market boundaries. Even for enterprises and governments of the developed countries such changes require special new efforts in order to obtain information on which to base rational production and investment decisions. For the developing countries, many of whom have recently broken their ties with governments or enterprises which hitherto have provided them with marketing outlets and services, the problem not only of paying for but also of organizing such services is especially difficult. Furthermore, the creation of new economic groupings among developed countries may also increase the commercial inequality of developing countries, as the exporters in countries members of these groupings will tend to reduce their efforts in export promotion and thus to augment their relative commercial strength. The fact that the export enterprises existing or planned in the developing countries tend to be of relatively small size further reduces their ability to arrange by their own efforts for the market information they require.

* This paper was prepared by the secretariat of the United Nations Economic Commission for Europe in connexion with the sub-item on "Measures for the expansion of markets of the developed countries for exports of manufactures and semi-manufactures of developing countries" (item III.2 of the list of main topics) See Interim Report of the Preparatory Committee (first session), in Vol. VIII of this series.

1 See United Nations, Department of Economic and Social Affairs, Centre for Industrial Development, "Export Promotion of Small Industry Products", 22 April 1963, paper prepared under Project D 4b of the work programme of the Committee for Industrial Development; for an analysis of market research problems and possibilities in centrally-planned economies, see the article by the late Prof. Stephen Varga of the University of Budapest, "The importance of market research in socialism", Os-Okonomi, Oslo, December 1962, p. 223-243.


3 This includes information published by governments on market conditions and requirements in their own as well as other countries, as for example the Board of Trade Journal and the Overseas Economic Survey in the United Kingdom, and the Foreign Commerce Weekly in the United States.

4 This may not in itself necessarily be a competitive disadvantage (see OECD and United Nations studies referred to above) but does call for special export promotion efforts in order to draw maximum advantage from the small scale of operations.
own efforts and those of their governments acting alone adequate facilities for export promotion which would enable them to compete with other exporters.

5. The considerations referred to in the preceding paragraph, however important they may be, are not the fundamental reason why market research and market advisory services are essential for the developing countries: the fundamental reason is that they are necessary as a basic element in the planning and programming efforts made by developing countries in order to achieve a more rapid rate of economic growth and particularly a growth of their exports of manufactures and semi-manufactures. Before investment opportunities can be assessed in realistic terms, the possibilities for sales in foreign markets must be investigated and objectively evaluated. In most developing countries it is the government itself which formulates investment targets and which plays an active role in bringing to the attention of potential investors and entrepreneurs opportunities for entrance into foreign markets. Therefore, for the governments of developing countries a deep and systematic knowledge of foreign marketing possibilities is a prerequisite for their daily operations. These governments cannot simply content themselves with supplying general market information and representation services to their exporters as do the governments of developed countries.

6. But individual efforts by the developing countries, or even a joining of efforts by the governments of developing countries, while providing a base for action in the desired direction cannot be sufficient to meet the need. Irrespective of considerations of cost and expertise, the type of market information needed by the governments of the developing countries is such that only the governments of developed countries can furnish the assistance required. This is so because only the governments of the developed countries possess or can obtain sufficiently reliable, comprehensive and far-sighted information on market needs and potentialities in their own countries to provide a sound basis for investment decisions in the developing countries. What the developing countries need for this purpose is not simply the kind of background information which can be gathered from the multitude of current publications but rather information of a concentrated kind together with expert advice based on a scientific view of the economy as a whole which will give them guidance on export opportunities in a particular market. In many developed countries government agencies are better able to obtain such information and such advice than are non-governmental market research and advisory services; but even in cases where non-governmental services should be used this can best be done after a preliminary survey has been made which indicates that more detailed market exploration is justified. For this reason, there would seem to be solid advantages in inter-governmental co-operation in this regard between developed and developing countries, as a supplement and adjunct to the efforts which need to be made by individual developing countries or by groups of developing countries to promote their exports.

Measures of Intergovernmental Co-operation

7. Certain steps have already been taken to organize intergovernmental co-operation designed to assist developing countries in improving their market information and export promotion services. In the United Nations, information useful in exploring market opportunities is provided mainly through Secretariat studies and intergovernmental discussions of market conditions for particular products or production sectors, through technical assistance experts and fellowships in marketing, and through special programmes designed to hasten industrial development and improve the conditions for exports of raw materials and basic commodities from the developing countries. In 1959 and 1961 ECAFE held regional seminars on trade promotion, and a third seminar is scheduled for 1964. The terms of reference of the Latin American Institute for Economic and Social Planning include studies of measures to improve marketing techniques. In addition to its Foreign Trade News Letter giving information on marketing and trade promotion, the ECA has initiated intergovernmental co-operation in marketing particularly of agricultural products. The FAO and the ILO have not only co-operated with the United Nations regional commissions in the work referred to above, but also provide other services—the FAO particularly in the study of marketing techniques for agricultural commodities and the ILO in technical assistance for co-operatives.

8. In the framework of GATT, also, the question of marketing techniques and export promotion as an aid to development has been given consideration. In October 1962, the Government of Brazil brought to attention in GATT the need for intergovernmental efforts to make available marketing information to the less-developed countries. The Brazilian proposal which was presented to Committee III of GATT suggested “that an international centre which could collect, collate, publish and disseminate trade information would serve to meet a real need of the less-developed countries in the field of export promotion without imposing a financial burden on these countries beyond their means”. The Brazilian representative pointed out that such a centre would also be of value to developed countries. According to the Brazilian plan, the Centre would gather basic information on laws, regulations, trade formalities, institutions etc., would distribute this information in the form of a loose-leaf encyclopaedia and other publications, and would be financed on the basis of special governmental contributions and subscriptions as an autonomous organization under the general supervision of GATT. The response to the Brazilian proposal has been mixed. As of November 1963, thirty-five governments had replied along the following lines:

Fourteen developing countries expressed approval of the plan and two other developing countries, while expressing interest, felt that the matter required further study;

A majority of the replies from the developed countries indicated that their exporters had no
need for such a service since the information envisaged was already available but they were prepared to consider favourably any sound scheme and to contribute to the work of the Centre if it was generally felt that this should be established;

Several countries expressed doubt as to the usefulness and effectiveness of such a Centre; some suggested other means of action.

The Brazilian proposal is under consideration in Committee III of GATT which has decided to set up a Group of Experts (scheduled to meet from 4-6 February 1964) to discuss this measure as well as other measures in the field of trade promotion and production and marketing techniques.

9. The proposal presented by Brazil in October 1962 has stimulated a number of other suggestions relating to market promotion presented to Committee III and to the Action Committee of GATT:

(a) that industrial countries might bring to the notice of their traders and consumers information on the types of products available from less-developed countries;

(b) that special facilities might be granted for representation of less-developed countries in trade fairs held in industrial countries;

(c) that the industrial countries might give technical assistance in trade promotion to the developing countries (the United Kingdom Government has offered such assistance particularly as regards the establishment and operation of commodity marketing boards);

(d) that national trade information centres in industrialized countries might be charged with similar duties in respect of promotion of exports from developing countries and might provide information on trading opportunities in developed countries and on new sources of supply in developing countries;

(e) that national or international centres or services might be created to encourage exports by carrying out research on market studies, sales expansion, quality control, packaging, standardization and research services.

10. Whatever the result may be of the GATT discussions on the Brazilian and other proposals referred to in paragraphs 8 and 9 above, the United Nations Conference on Trade and Development might wish to consider what intergovernmental steps should be taken to meet the need for expanded market exploration services for the benefit of developing countries, especially as regards their exports of manufactured and semi-manufactured goods. In particular, consideration might be given to the establishment under United Nations auspices of an arrangement whereby governments of developed countries would each set up market research and market advisory services especially designed to promote imports into their territories from the developing countries.

11. Such market research and advisory services set up by the governments of the developed countries would be staffed by highly competent professional marketing experts. They would have as their objective the active exploration of import possibilities and the promotion of imports, particularly of manufactured and semi-manufactured goods, into the developed country concerned from the developing countries. These agencies would take action upon receipt of an official request from the government of a developing country and would, where such a step was considered useful, conduct surveys of market conditions for particular products whose export was contemplated or being studied by the government of the developing country. While the agency would go beyond the provision of basic information and would seek to answer specific marketing inquiries with sufficient detail to enable decisions to be made by the government of the developing country or entrepreneurs, it would not embark upon the intensive field investigations necessary at the ultimate stages of market research. In cases where after making an initial survey it was found that more elaborate market research and advice was justified and necessary, the requesting government would be so informed so that it could then determine whether to employ professional non-governmental services for this purpose. The contribution of the government agency in the developed country would be of a preliminary nature, providing the type of analyses which could be made the basis for first-stage planning decisions but not rendering unnecessary the more detailed inquiries needed as a basis for decisions regarding commercial operations.

12. Such a network of governmental market research and market advisory services provided by the governments of developed countries would have great advantages for the developing countries, quite apart from the expenditure which it would save them. In first place, it would enable Governments of the developing countries to inform themselves on export possibilities in cases where it would be difficult to justify a market research expenditure on the basis of a hypothetical possibility; it could thereby constitute an important help in the planning and investment promotion work of the governments of developing countries. A further advantage is that it could make available highly qualified local professional experts who would be better acquainted with market conditions in the particular developed country than normally would be any outside investigator or analyst. Finally, as has been indicated above in paragraph 6, these market research and advisory services would be able to provide to the governments of developing countries information superior in comprehensiveness and usefulness to that usually available through non-governmental services.

13. At first sight it might appear that to expect governments of developed countries to set up such import promotion services would be to ask for a considerable degree of altruism on their part since normally such government services are provided for their own exporters but not for exporters of other countries. The answer to this would seem to be that the governments of developed countries have now generally come to the realization that self-interest justifies efforts on their part not only to promote exports from their markets but also to promote imports into their markets, and this not least as an indirect means of expanding their exports. In addition,
governments of developed countries might take into consideration the fact that the governments of developing countries by devoting substantial efforts to economic planning and the expansion of their economy and by making the results of their work generally available are, in fact, already providing marketing services to the developed countries enabling them to expand their sales and to make their export plans with a better knowledge of market conditions in the developing countries. The question might also be raised whether such import promotion services would be necessary or appropriate in countries having planned economies. The answer would seem to be that, even though the form and the operational methods used might be somewhat different from those in countries with market economies, the need to study and foresee import demands and to intervene with other governmental agencies and enterprises in order to stimulate or help to arrange imports from developing countries is no less important than in countries with market economies. This particular need does not seem to be met, or not fully met, by the existing machinery for commercial relations: trade representations and missions, trade fairs, chambers of commerce, joint committees, etc. However, in some countries (for example the USSR), State committees or administrations for foreign economic relations act as coordinators of aid programmes, intervening with other governmental agencies and with producing enterprises in order to carry out specific export procurement projects: such agencies might also be given responsibilities for import promotion of the kind envisaged in this paper as part of the aid programme.

14. The question might also be asked why such intergovernmental co-operation should take place under the auspices of the United Nations; the answer would seem to be that such an effort should be universal in order to be fully effective and in order to promote a maximum expansion of exports from the developing countries. Furthermore, while a decentralized operation is envisaged, it might be useful to channel requests for market surveys through United Nations machinery so that market inquiries could be grouped in order to ensure maximum economy and so that this work could be tied into the United Nations programmes for technical assistance and Special Fund resources the kind of practical assistance in this field should be conceived as part of a concerted effort for purposes of national planning to investigate and uncover new commercial opportunities, possibly even for a group of developing countries. Thus, for example, if a developing country or group of countries were considering the establishment of steel plants to produce for export as well as for domestic needs, and considered it important to determine whether there might be a market for particular kinds of steel products in a particular developed country, arrangements might be made through the United Nations technical assistance programme, the Special Fund and the Centre for Industrial Development whereby a group of experts well acquainted with the market in the developed country envisaged for study would conduct a survey which could provide the basis for an informed decision on this crucial question. The market survey group might seek to obtain scientifically sound answers to such questions as: What kinds of steel products are likely to be in demand in the market concerned over the next ten or twenty years? What are domestic production plans likely to be and what competitive conditions seem probable? What are the requirements of the market likely to be in terms of qualities, prices, technical specifications, etc.? For development planning, this type of pre-investment export market survey is just as essential as a pre-investment resources survey; indeed, the two types of survey should be considered as fundamentally part of the same inquiry. Such surveys might also be supplemented by fellowships for market personnel from developing countries who would study on the spot in a particular developed country the market conditions and prospects for a specific product.

15. A second way in which the United Nations could help foster intergovernmental co-operation in this field would be to arrange an enlarged programme of technical assistance and Special Fund financing for export market promotion. It is true that expert advice and fellowships have in the past been made available in accordance with such requests as have been made by governments of developing countries and that only a small number of requests have so far been put forward. According to the study by the United Nations Centre for Industrial Development referred to above, this lack of requests may be largely due to the narrow scope of the export promotion measures adopted by most governments". Yet it may also be a result of a lack of appreciation of the possibility of arranging through United Nations technical assistance facilities and Special Fund resources the kind of practical export market services which would assist governments of developing countries and their entrepreneurs in their detailed planning of production and investments. To provide such services, it is not sufficient that experts in the techniques of marketing or market promotion be employed to recommend improvements in methods of production or selling; in addition expertise must be sought which will be related to a particular market for a specific product. Technical assistance in this field should be conceived as part of a concerted effort for purposes of national planning to investigate and uncover new commercial opportunities, possibly even for a group of developing countries. Thus, for example, if a developing country or group of developing countries. Thus, for example, if a developing country or group of countries were considering the establishment of steel plants to produce for export as well as for domestic needs, and considered it important to determine whether there might be a market for particular kinds of steel products in a particular developed country, arrangements might be made through the United Nations technical assistance programme, the Special Fund and the Centre for Industrial Development whereby a group of experts well acquainted with the market in the developed country envisaged for study would conduct a survey which could provide the basis for an informed decision on this crucial question. The market survey group might seek to obtain scientifically sound answers to such questions as: What kinds of steel products are likely to be in demand in the market concerned over the next ten or twenty years? What are domestic production plans likely to be and what competitive conditions seem probable? What are the requirements of the market likely to be in terms of qualities, prices, technical specifications, etc.? For development planning, this type of pre-investment export market survey is just as essential as a pre-investment resources survey; indeed, the two types of survey should be considered as fundamentally part of the same inquiry. Such surveys might also be supplemented by fellowships for market personnel from developing countries who would study on the spot in a particular developed country the market conditions and prospects for a specific product.

16. If the promotion of exports of manufactured and semi-manufactured goods from the developing countries is regarded as an objective suitable for intergovernmental co-operation in the framework of the United Nations, a two-pronged attack on the marketing aspects of this problem might be carried out along the lines indicated above (and in co-operation with any other interested international bodies) as part of a new programme of trade expansion resulting from the United Nations Conference. While market research and export promotion of the type indicated could be a valuable adjunct in indicating or opening up certain opportunities for economic growth in the developing countries, it should of course be borne in mind that they are not a substitute for the more basic investment and commercial policy inquiries and decisions required in order to improve conditions of trade for the developing countries.
POSSIBLE IMPROVEMENTS IN INTERNATIONAL TRADE PRACTICES AND JURIDICAL INSTITUTIONS DESIGNED TO CONTRIBUTE TO BETTER EXTERNAL TRADE CONDITIONS FOR DEVELOPING COUNTRIES*

1. The experience of the Economic Commission for Europe shows that, although the improvement of the legal techniques of foreign trade does not perhaps produce a direct and immediate effect on the expansion of international trade, it tends in the longer run to improve the general conditions under which foreign trade is carried on, in that it lowers the cost of commercial transactions and removes the technical difficulties which can hamper the smooth and progressive development of international commercial relations and which are liable at times even to hold down the volume or to distort the substance of those relations. On many points, the concerted action taken, within the framework of the Economic Commission for Europe, by the Governments and by the institutions and undertakings interested in international trade has had the effect of standardizing international trade practices and of adjusting them to the new economic and commercial conditions. In this way, it has been possible to obviate some of the most striking drawbacks of the diversity of the statutory provisions which govern the international trade transactions of individual countries, and at the same time it was demonstrated that, to some extent at least, a common legal technique could be devised for international trade transactions between countries having different political, economic and social structures. Positive results in this direction have been achieved in Europe with regard to international sales transactions, international commercial arbitration, transport insurance and other forms of insurance relevant to international trade, the organization of international trade fairs, and the simplification of the documents required for foreign trade transactions.

2. In some of these matters, and particularly as regards international sales transactions and arbitration, a corresponding adaptation of the techniques of international trade might be of even greater significance for relations between industrialized and developing countries. For in these relations, apart from the difficulties which are attributable to differences between legislative systems or to differences in the structure of commercial organization, there are in addition the problems arising out of the opposing, or at least apparently opposing, interests in respect of world trade of countries which have not all reached the same degree of national economic development. The legal technique of trade relations between industrialized and developing countries is bound, eventually, to be influenced by the changes which have occurred in the last few years in the actual international position of a large number of developing countries by reason of their recently acquired independence. The legal forms both of their internal commercial organization and of their participation in large-scale world trade, which were inherited from the time when these countries were politically or economically dependent, are not necessarily those best suited to the present course of trade relations between countries that are equal in law but different in degree of economic development. The adjustment of the legal practices and institutions of international trade to the present needs of commercial relations between industrialized and developing countries might, therefore, perhaps engage the attention of the United Nations Conference on Trade and Development, in the light of the experience gained within the framework of the Economic Commission for Europe as regards the law and technique of international trade.

I. STANDARDIZATION OF PRACTICES OF INTERNATIONAL SALES TRANSACTIONS

3. The international unification of the general conditions of sale for certain commodities which are particularly important to European trade was the first and the most extensive of the efforts undertaken by the Economic Commission for Europe to adapt international commercial law to the present needs of foreign trade. In fact, these efforts answered certain indisputable—even if not always clearly recognized—practical needs of international trade. So far as the law is concerned, the international codification of conditions of sale makes it possible to unify the relevant rules with maximum efficacy and minimum effort, and so to remove the disadvantages arising for international trade from the divergence of national laws. For that purpose, it is of course necessary that the uniform conditions of sale or uniform standard contracts should be as complete as possible and should contain in any case provisions for the settlement of whatever difficulties may arise in connexion with the performance, or rather non-performance, of the contract. From the commercial point of view, the fact that there are general international conditions of sale offers the parties to an international commercial transaction the possibility, in all matters affecting the general part of their contract, of referring to already existing international conditions and confining their negotiations in the particular case, to the determination of the development* (item I of the list of main topics): See Interim Report of the Preparatory Committee (first session), in Vol. VIII of this series.

* This paper was prepared by the secretariat of the United Nations Economic Commission for Europe in connexion with the item on "Expansion of international trade and its significance for economic development" (item I of the list of main topics): See Interim Report of the Preparatory Committee (first session), in Vol. VIII of this series.
price, to the specification of the goods and to whatever special conditions they consider indispensable for the sound drafting of their contract.

4. In this way, a great deal of time is saved in the conclusion of particular contracts, for as they are able to refer to general conditions, the contracting parties do not need to renegotiate the whole of the conditions of the contract all over again every time. It may even be said that, in so far as the pre-established general conditions constitute a broad settlement of the problems on which the contracting parties would otherwise have to come to terms in each specific case, they tend not only to facilitate the conclusion of contracts but even to increase the volume of commercial transactions, for by referring to general conditions the contracting parties eliminate the risk of disagreement on questions which, in the absence of pre-established rules, they would have had to discuss themselves. This use of standardized general conditions can, however, have its full effect only if the conditions proposed as a basis for negotiations and agreements genuinely represent a fair compromise between the two interests involved, and not a unilateral regulation, imposed by one of the interested groups upon the other, reflecting the relative strength of the position of sellers and buyers of a particular commodity on the world market.

5. In this respect, the conditions and contracts worked out in Geneva under the auspices of the Economic Commission for Europe seem to be unimpeachable. Each of these texts was drafted, often after long and difficult negotiations, by an ad hoc working group in which representatives of the countries exporting and importing the commodity in question were represented on a footing of full equality. In connexion with each and every commodity, the experts concerned were constantly reminded of the need to safeguard all the interests concerned in the general conditions or standard contracts drafted under United Nations auspices. And perhaps this quest for a balance as between the often conflicting claims of the two parties involved in an international sales contract should be regarded as the most characteristic feature and as the most definite gain from the unification of the legal practices of the international contract of sale achieved or in progress in the Economic Commission for Europe in Geneva. In the past, the general conditions of sale used in international trade in certain commodities were generally prepared and imposed by that of the parties to the transaction which, in the world market for the commodity in question, enjoyed a dominant position. For example, as regards manufactured products, the conditions of sale current before the unification effort at Geneva had been worked out exclusively by the exporting countries, and consequently reflected primarily the interests and the position of the sellers. Conditions of sale for raw materials, on the other hand, are marked by the fact that the world market in these materials is still dominated by the importing countries. Without wholly reversing this trend—which would be unreasonable and probably unacceptable to the representatives of the industrialized countries—the Geneva conditions nevertheless introduce into the general structure of the contractual rules formulated in them so many genuine safeguards for the buyers of manufactured products and for the sellers of raw materials that, compared with the traditional practices, their whole tenor is more balanced and more respectful of the interests of both parties. Admittedly, this result was achieved only because the representatives of the interests which have been, and in many cases still are, predominant in the market for certain commodities made a number of concessions without any obvious counterpart. The representatives of these interests, however—and this is probably the most instructive lesson to be learnt from the Geneva experience with the drafting of uniform conditions of sale—secured the concurrence of their trading partners to certain freely negotiated conditions which both parties are not only bound to respect, but which they will find it all the more in their own interest to apply since, from the outset of the negotiation, their respective positions have been taken equally into consideration. Better means of ensuring the stability and the observance of contracts can hardly be devised.

6. It was in this spirit that standard contracts were drawn up at Geneva for the various types of sales of cereals, and also General Conditions for the supply—and for the supply and erection—of plant and machinery and for the sale of citrus fruit, timber, solid fuel and potatoes. Similar efforts with regard to steel, in spite of some genuine progress, have not yet succeeded owing to the continuing disagreement between the representatives of some countries exporting and those of the countries importing steel products, although as a matter of fact this disagreement relates only to a very few clauses in respect of which a generally acceptable solution has yet to be found. Of all these contracts and general conditions, those which have been best received in practice by international commercial circles are undoubtedly the various instruments prepared for the international trade in plant and machinery, which constitute an important branch of international trade, and which have formed the basis and precedent for the other work of the Economic Commission on the unification of the legal practices of international trade, have undoubtedly contributed to fill the gap which existed in this respect before the publication of the Geneva General Conditions for the supply and erection of engineering equipment abroad, which constitutes an important branch of international trade. In other branches of international trade, particularly in the cereals and timber trade, solid traditions based on national or bilateral conditions which go back a long time but which are commonly used internationally have for the time being acted as a brake on the wider use of the Geneva conditions, even though the trade is beginning to realize that these more recent conditions are better suited to the modern trading techniques

1 For a complete list of the General Conditions and standard contracts drawn up under the auspices of the Economic Commission for Europe, see the annex hereto.
2 See the Note by the secretariat of the Economic Commission for Europe on the Commission's work in this field; document STEEL/Working Paper No. 262.
3 As regards the utilization of the General Conditions for the supply and erection of engineering equipment, see document IM/WP.5/59.
and provide a fairer balance between the two contracting parties involved in international sales transactions. Nevertheless, without being generally applied as such, the Geneva conditions have exerted some influence on developments in international practice, for example in the matter of the sale of timber and cereals; in some cases, for example, these General Conditions are used as reference documents in the event of dispute, in others the conditions of sale at present in use have been amended to redress the balance in favour of the party to the contract whose interests were neglected in the past, by altering these conditions substantially in certain important respects and correcting their more objectionable features. Even though the work of the Economic Commission for Europe on the unification of international trade practices has only an indirect effect, its influence on practice is sufficiently great to justify its efforts if only because they have started a general movement towards a fairer proportion of practices between the parties to international sales contracts, by endeavouring to strengthen, commercially and legally, the international position of the buyers of manufactured products and of the sellers of raw materials.

7. The mere description of this programme is enough to show that it may be of special interest to the developing countries as one of a number of measures capable of improving the terms of their participation in world trade as countries which are still essentially exporters of raw materials and importers of plant and machinery. The codification of the practices of international trade may in addition offer a further advantage to the developing countries with regard to their own national commercial law. The experience of some European countries, in particular that of the Scandinavian countries, has shown that conditions of sale prepared for the purposes of international trade can very easily be used, with some minor adaptations and simplifications, in purely internal trade transactions. Accordingly, the developing countries, in building up their national law on the sale of goods, can derive some guidance from rules which have been tested by experience in international transactions between buyers and sellers. If many developing countries adopt this approach, their legislations would almost automatically attain uniformity and, in their international relations, they would avoid many of the difficulties faced by countries wedded to their national traditions of commercial law. These considerations strengthen the general arguments mentioned above in favour of the international unification of practices regarding the sales contract and show that the standardization of the practices regarding the international contract of sale deserves a place in any plan for improving the conditions governing the foreign trade of the developing countries.

8. It should be mentioned in this connexion that some developing countries have already recognized the advantages which the Geneva conditions offer them and that, in their international transactions, they are making a point of using these conditions in preference to the usages which have hitherto prevailed in the markets. For the time being, however, these are only isolated cases, and it would certainly be interesting to consider the possibility of extending the use of internationally standardized conditions of sale in trade relations between developing and industrialized countries, and also among developing countries themselves and perhaps even as rules governing the internal trade of the developing countries. In the branches of trade covered by conditions of sale or standard contracts prepared by the Economic Commission for Europe, these conditions or contracts might form the basis for the establishment of the usages to be applied to the trade relations of the developing countries. Besides, a great many of the texts prepared in Geneva may well be acceptable in their present form to the developing countries. The question should, however, be studied jointly by representatives of the industrialized and of the developing countries in order that the latter should have an opportunity of scrutinizing closely the provisions to be applied by them later, of stating their views, and ultimately of accepting in principle only provisions in the formulation of which they have taken an active part. For experience in Geneva shows that, in the case of conditions of sale which are by definition optional and which apply only if the parties concerned rely on them in a particular transaction, effective participation in their drafting by the authorized representatives of those who may later use them is the best—and perhaps the only—guarantee of their future use.

9. After the conditions of sale and the standard contracts drawn up under the auspices of the Economic Commission for Europe have been finalized and possibly adapted to the special needs of the developing countries, or perhaps even side by side with this process, one might consider the drafting of analogous provisions for branches of international trade which, because not of immediate interest to European trade, have not been examined by the Geneva experts but which constitute an important factor in the trade of the developing countries. Preparatory work has already been carried out in Geneva for certain commodities answering this description. For example, the secretariat of the Economic Commission for Europe, in co-operation with the Governments and international organizations concerned, has prepared draft general conditions of sale for tropical timber which will be circulated, through FAO, to the authorities and undertakings of the developing countries interested in the tropical timber trade, so that it can serve as a possible guide in the establishment of their own practices for the sale of this commodity. Likewise, the standard contracts prepared in Geneva for the sale of cereals could perhaps serve as the basis for the preparation or adaptation of conditions for the sale of some foodstuffs which are particularly important in the trade of the developing countries, such as rice and cereals that require special treatment for commercialization. In the case of commodities for which, by reason of their prominence in the trade of the developing countries, it might be thought desirable to draft conditions of sale, but which have not been studied in Geneva from the point of view of practices of international sale, the preparatory research would

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4 Document TIM/165-TIM/WP.1/19.
have to be initiated independently. Here too, however, the experience gained in Geneva can offer some useful guidance as regards working methods, in particular the organization of committees of experts to draft conditions of sale for the commodities selected, the composition of these committees on the basis of an equal representation of all the interests involved and the precedence which—if the intention is to establish practices in keeping with modern conditions of international association, economic and commercial considerations should receive over purely legal traditions.

10. If, in the course of clarifying and adjusting international usages in the matter of commercial sales, special attention were paid to the problems peculiar to the developing countries, the probable result would be that work on the international trade in engineering goods would be much more thorough and would take much longer. As has been mentioned above, general conditions for the supply, and for the supply and erection, of plant and machinery have been prepared under the auspices of the Economic Commission for Europe. These conditions, which were later supplemented by general conditions for the supply of engineering stock articles, relate above all to conventional and well defined transactions of the kind which has been current ever since the earliest days of an international trade in capital goods. In the light of the most recent trends in this trade, the Commission's Working Party concerned with contracts relating to the engineering industry doubted, however, whether the incidental transactions which tend ever more frequently to accompany exports of capital goods have become so general and are so clearly identifiable as to make it worthwhile trying to define the commercial practices that govern or should govern such transactions in these different fields which have been recently opened up to international trade. Studies on these lines have been undertaken in Geneva concerning contracts relating to the disclosure of "know-how" and the general conditions for civil engineering works and public works associated with the construction of large industrial plant. These two topics in themselves have a special significance for the developing countries. For behind the problem of "know-how" lies the question of the demarcation between technical information that can be supplied free of charge and information which those holding it are not prepared to disclose except for a consideration; this question, which is fundamental to the industrialization of the developing countries, has so far received little attention. As regards the conditions for civil engineering and public works required for the construction of large-scale industrial plant, the joint study of these conditions by the industrialized countries, which are the potential exporters, and the developing countries, which are the potential buyers of large-scale industrial plant, would certainly make it possible to adapt, under optimum conditions, the legislation of the developing countries concerning public works to the new situation arising from their political and economic independence, with due regard for the need to protect the legitimate interests of any foreign undertakings carrying out industrialization projects in the developing countries. Viewed in this context of the foreign trade of the developing countries, the two problems of the disclosure of "know-how" and of the formulation of general conditions for civil engineering and public works required for the construction of large-scale industrial plant appear in quite another light than if considered exclusively from the angle of relations between industrialized countries.

11. Furthermore, for the foreign trade of the developing countries the importance of these two problems far transcends the importance attaching to each separately. The "know-how" contract, either by itself or combined with a patent sale or licensing contract or with an engineering contract, and the contract for public works or civil engineering works, as also the general conditions adopted, as indicated above, by the Working Party of the Economic Commission for Europe on contract practices in engineering or prepared by the Commission's secretariat, constitute elements of a complex comprehensive agreement, known as a "turnkey contract", covering the construction of a large-scale industrial plant by a general contracting firm or by a group of contracting firms. A large-scale plant of this type is normally delivered to the buyer in a state ready to operate, and the supplier, on the basis of the plans—or of the so-called "engineering contract"—gives an absolute warranty or unconditional guarantee of sound operation, efficiency or consumption. These "turnkey contracts" are often accompanied by contracts for technical assistance or for the utilization or marketing of the products of the factories constructed and delivered on a "turnkey" basis. A further, and as it were inherent, element of "turnkey" transactions is credit—which may be short-term or long-term—and hence it is impossible to study the questions raised by the definition of the complex contractual relations that grow up around the construction of large-scale industrial plant without at the same time facing the question of the financing of the transaction, and in particular that of the certainty of the necessary credit. The exporter who supplies and erects on credit a large-scale industrial plant to a developing country, particularly if the operation includes a set of contracts which in fact associate the exporter for a comparatively long time with the economic fate of the industrial plant, even in the absence of any active capital participation—apart from the credit granted—in the operation of the plant, finds himself ultimately in a situation comparable with that of the foreign holder of a conventional investment contract. In view of the importance for the industrialization of the developing countries of the inflow of foreign capital, especially in the form of the supply on credit of large-scale industrial plant, one can hardly leave unexplored the possibilities which appear to be opened up by the joint study by the two parties concerned of the conditions of the various specific contracts that constitute

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6 See, in particular, General Conditions Nos. 188D and 574D, documents Sales Nos. 63.II.E/Mim. 21 respectively.

7 See, in particular, General Conditions Nos. 188D and 574D, documents Sales Nos. 63.II.E/Mim. 21 respectively.
a comprehensive “turnkey” agreement. And as the export on credit may sometimes be combined with a capital participation, in “mixed” companies for example, by the foreign erector of a large-scale industrial plant in that plant’s operation, a technical study, and a precise formulation, of the contracts involved in the international trade in plant and machinery, in accordance with the methods devised by the Economic Commission for Europe, might eventually lead to the study of the legal rules governing foreign investments in the developing countries, while at the same time probably making it possible to treat this fundamental problem of economic development, which would be considered in its legal, technical and commercial aspects, independently of many of the difficulties which at present beset its discussion in the context of general economic policy.

II. INTERNATIONAL ARBITRATION

12. The problems of arbitration are very closely linked with those of the international contract of sale. An arbitration clause is normally included in these contracts, as indeed in virtually all international contracts of any importance. And it was precisely because of the difficulties which arose in the drafting, for the purposes of the General Conditions for the sale of plant and machinery, of an arbitration clause that would be equally acceptable to all the countries of the world which are parties to the European Convention, and also in the rules of procedure. Both the Convention and the rules of procedure lay down a system that is particularly suited to east–west commercial relations for the designation of arbitrators in the case where persons or firms from countries which are parties to the European Convention or which have adopted the rules of the Economic Commission for Europe, have not themselves designated the arbitrators. The system embodied in the European Convention, and also in the rules of procedure, the Economic Commission for Europe, gives to the party wishing to resort to arbitration the choice, among other courses, of applying, for the purpose of arbitration, to a special Committee of three members designated in the following manner: two members elected for four years, one by the Chambers of Commerce of the States Parties to the Convention in which National Committees of the International Chamber of Commerce exist, and the other by the Chambers of Commerce of the States Parties to the Convention in which no National Committees of the International Chambers of Commerce exist, and the Chairman of the Special Committee, who has the casting vote, elected for an initial term of two years by the Chambers of Commerce of the first group of countries and for a second two-year term by the Chambers of Commerce of the second group. In other words, in the provisions concerning international commercial arbitration drafted in Geneva, the method employed for settling the problems which might arise in the organization of arbitration and in the appointment of arbitrators in connexion with commercial relations between countries having differing economic systems is that of the chairmanship by rotation.

13. Arbitration is not merely a clause in international contracts; it is also a procedure and a mode of settling disputes which, if it is to function smoothly, must on occasion rely on a specialized institution. Accordingly, the work in Geneva on the subject of arbitration, which originated in the efforts to draft an arbitration clause for contracts of sale concluded between the countries of eastern and those of western Europe, was progressively broadened to cover the procedure of arbitration, the search for means of ensuring the maximum stability for arbitration awards at the international level, and the quasi-institutionalization of international commercial arbitration in cases where, by reason, for example, of differences in the economic structure of their respective countries, the parties to an international contract are unable to settle themselves, in a particular case, the various problems connected with the organization of the arbitration.

14. The work of the Economic Commission for Europe on the subject of arbitration culminated in the conclusion of the European Convention on International Commercial Arbitration of 21 April 1961 and in the drafting of the model arbitration rules of the Economic Commission for Europe. These two documents deal with the following problems, which are of three types. The European Convention on International Commercial Arbitration contains a number of provisions which settle certain controversial problems of arbitral procedure (the eligibility of foreign nationals as arbitrators; the capacity of bodies corporate of public law to submit their disputes to arbitration; the question of the reasons for the award; the law applicable, and others which deal with possible conflicts of jurisdiction between the ordinary courts of law and a court of arbitration; yet other provisions supplement in certain respects, in particular with regard to the international effect of the setting aside of an arbitral award, the New York Convention of 1958 on the Recognition and Enforcement of Foreign Arbitral Awards. The second part of the arbitration rules of the Economic Commission for Europe contains a model procedure to be followed by the arbitrators which can be used by an arbitral tribunal set up to deal with a particular dispute and not connected with any existing arbitration institution having its own rules of procedure. Both the Convention and the rules lay down a system that is particularly suited to east–west commercial relations for the designation of arbitrators in the case where persons or firms from countries which are parties to the European Convention or which have adopted the rules of procedure. The system embodied in the European Convention, and also in the rules of procedure, the Economic Commission for Europe, gives to the party wishing to resort to arbitration the choice, among other courses, of applying, for the purpose of arbitration, to a special Committee of three members designated in the following manner: two members elected for four years, one by the Chambers of Commerce of the States Parties to the Convention in which National Committees of the International Chamber of Commerce exist, and the other by the Chambers of Commerce of the States Parties to the Convention in which no National Committees of the International Chambers of Commerce exist, and the Chairman of the Special Committee, who has the casting vote, elected for an initial term of two years by the Chambers of Commerce of the first group of countries and for a second two-year term by the Chambers of Commerce of the second group. In other words, in the provisions concerning international commercial arbitration drafted in Geneva, the method employed for settling the problems which might arise in the organization of arbitration and in the appointment of arbitrators in connexion with commercial relations between countries having differing economic systems is that of the chairmanship by rotation.

15. From the point of view of the foreign trade of the developing countries, the provisions of the Geneva Convention tending to facilitate the organization and to enhance the effectiveness of commercial arbitration are certainly in keeping with the efforts being made in many developing countries to encourage the arbitral settlement of commercial disputes. It remains, of course, to be seen whether the provisions of the European Convention in Geneva which deal with arbitral procedure, with conflict of jurisdiction
between the ordinary courts of law and an arbitral tribunal, and with the international effect of arbitral awards, can be applied as they stand by the developing countries or whether they ought perhaps to be adjusted to suit the special needs of these countries. It might likewise be desirable to consider whether that part of the arbitration rules of the Economic Commission of Europe which deals with the procedure to be followed by the arbitrators can serve as a useful precedent for the organization of arbitration proceedings in the developing countries. On these two points, the Conference on Trade and Development may perhaps wish to recommend studies to determine the value to the developing countries of what has been achieved at Geneva. Arbitration in the relations between industrialized and developing countries cannot, however, evolve satisfactorily unless a system for the designation of arbitrators is worked out which is adapted to those relations and which can be applied by all the parties concerned without any mental reservations.

16. The experience gained in Geneva has clearly demonstrated how difficult, and at the same time how essential it is to provide, in the commercial relations between countries with differing economic structures, for a system of arbitration that gives all the parties concerned an equal opportunity of participating in the organization of the arbitration proceedings. In the relations between countries at differing levels of economic development, it is probably even more important to devise such a system for, as is well known, undertakings in industrialized countries consider the inclusion of an arbitration clause in their investment contracts as a fundamental condition of their active participation in the industrialization of developing countries, whether in the form of exports on credit or in the form of direct investments. Hence, the future course of the various investment techniques described above is linked to the progress of arbitration in the relations between undertakings in industrialized countries and the governments of developing countries. Besides, since what the former want is security and the latter economic development, it is not easy to visualize a procedure for the appointment of arbitrators that is capable of giving the same feeling of confidence to all concerned. The International Bank for Reconstruction and Development is at present investigating the possibility of setting up a new arbitration body to deal especially with disputes between capital-exporting undertakings in the industrialized countries and the governments of the developing countries in which foreign capital is invested. If set up this body may succeed in disposing of all the difficulties which at present exist in the matter. It is, however, equally possible that a new arbitration body, even if widely used, will not succeed in persuading all those concerned to accept its jurisdiction; in that event, a system which, like that embodied in the European Convention on International Commercial Arbitration for east-west commercial disputes, would then constitute a much-needed last line of defence on the arbitration front between foreign undertakings and the governments of the developing countries. The work of the Economic Commission for Europe on the subject of arbitration might then serve both as reference material and as a possible basis of discussion in the search for an arbitration system which would be applied when no other arbitration procedure has been accepted by the parties.

17. The foregoing suggestions may be summed up as follow: with a view to contributing to the improvement of the conditions affecting the foreign trade of the developing countries, the Conference on Trade and Development might take into account the experience of the United Nations Economic Commission for Europe in the matter of the unification and establishment of legal practices in international trade and accordingly promote or initiate studies on the following questions:

(a) the adaptation of the General Conditions of sale or standard contracts prepared under the auspices of the Economic Commission for Europe to the special needs of the foreign trade of the developing countries;

(b) the preparation of General Conditions or standard contracts of sale for the branches of trade which are of special interest to the developing countries;

(c) the study of the problems raised by the erection on credit of large-scale industrial plant in the developing countries;

(d) the application of the methods employed by the Economic Commission for Europe in the drafting of the General Conditions of sale to the preparation of standard contracts relating to investments in particular branches of industry;

(e) the possible acceptance by the developing countries of the provisions of the European Convention on International Commercial Arbitration, or of analogous provisions, so far as arbitral procedure, conflicts of jurisdiction between the ordinary courts and arbitral tribunals and the international effect of arbitral awards are concerned;

(f) the possibility of using, in arbitration cases involving developing countries, the optional arbitration rules of the Economic Commission for Europe;

(g) the establishment, for the purpose of arbitration proceedings between foreign undertakings and the governments of the developing countries, of a procedure for the designation of arbitrators in cases where the parties to the dispute are unable to agree on their appointment.

18. No reference has been made in this paper to the institutional framework within which these studies might be carried out. It seems premature to raise this issue so long as the actual content of the studies is undecided. If a positive attitude should be adopted towards the substance of the problems raised in this Note, it would surely not be difficult to find, within the framework of existing (or possibly new) institutions, the means necessary for carrying out whatever studies might be decided upon.
GENERAL CONDITIONS OF SALE DRAWN UP UNDER THE AUSPICES OF THE ECONOMIC COMMISSION FOR EUROPE

Document No. UN Sales No.

General Conditions for the Supply of Plant and Machinery for Export No. 188
Commentary on the General Conditions for the Supply of Plant and Machinery for Export No. 188
General Conditions for the Supply and Erection of Plant and Machinery for Import and Export No. 574
Commentary on the General Conditions for the Supply of Plant and Machinery for Export No. 574
General Conditions for the Supply and Erection of Plant and Machinery for Import and Export No. 574A
Commentary on the General Conditions for the Supply of Durable Consumer Goods and of Other Engineering Stock Articles No. 730
General Conditions for the Export and Import of Sawn Softwood No. 410
General Conditions for the Export and Import of Hardwood Logs and Sawn Hardwood from the Temperate Zone No. 420
General Conditions for the Export and Import of Solid Fuels
General Conditions for the International Sale of Citrus Fruit No. 312
Contracts for the Sale of Cereals (c.i.f. Maritime)
Final Version of the Contracts for the Sale of Cereals 5A and 5B (f.o.b. Maritime, with corrigenda)
Final Version of the Contracts for the Sale of Cereals 6A and 6B (Consignment by rail in complete wagon loads)
Final Version of the Contracts for the Sale of Cereals 7A + 7B (c.i.f. Inland Waterway) and 8A + 8B (f.o.b. Inland Waterway)
General Conditions for International Furniture Removal
General Conditions for the Erection of Plant and Machinery Abroad No. 188D
General Conditions for the Erection of Plant and Machinery Abroad No. 574D

ME/188 dl/53
E/EC/E/169,
E/EC/E/WP. 5/9
ME/188A
ME/574/55
E/EC/E/220,
E/EC/E/WP. 5/16

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57.II.E/Mim. 4

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59.II.E/Mim. 1

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AGRI/WP. 3/14

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57.II.E/Mim. 21

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57.II.E/Mim. 21

AGRI/198,
AGRI/WP. 4/50/Rev. 1.

62.II.E/Mim. 30

TRANS/263

62.II.E/Mim. 15

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63.II.E/Mim. 21

E/EC/E/WP. 5/42

63.II.E/Mim. 22
TRADE, DEVELOPMENT, AND THE WORLD BANK GROUP*

1. The United Nations Commission on International Commodity Trade, at its eleventh session held in April-May 1963, requested the International Bank for Reconstruction and Development (the World Bank) and the International Development Association (IDA) to prepare a report “indicating to what extent and in what way they can help in dealing with the special long-term problems of the primary exporting countries whose exports show a persistent decline.” This request resulted from discussions in the Commission, over the years, of various proposals for possible action to alleviate the difficulties, external and internal, experienced by primary producing countries and arising from sharp fluctuations, stagnation and, in some cases, absolute decline in their export earnings.

2. The Secretariat of the United Nations Conference on Trade and Development which opened on 23 March 1964 in Geneva, associated itself, on behalf of the Conference, with the request of the Commission in a letter to the Bank of 17 July 1963. Consequently, the present report is being submitted simultaneously to the Conference and to the Commission.

3. The World Bank Group, whose essential function is to promote economic development, is vitally concerned with problems of international trade, for development and trade are intimately linked. The World Bank Charter lists among its purposes “to promote the long-range balanced growth of international trade and the maintenance of equilibrium in balances of payments by encouraging international investment for the development of the productive resources of members, thereby assisting in raising productivity, the standard of living and conditions of labour in their territories.” The Charter of the International Development Association also recognizes “that mutual co-operation for constructive economic purposes, healthy development of the world economy and balanced growth of international trade foster international relationships conducive to the maintenance of peace and world prosperity”.

4. International trade problems may constitute a grave obstacle to economic growth. More particularly, countries heavily dependent on exports of primary products, especially when this dependence is on one or a very few such products, may be seriously affected by commodity market and price problems. One could cite eleven countries whose earnings from merchandise exports were lower in 1961-1962 than in 1955-1956. For some, the principal cause of decline was a reduction in the volume of exports; for others, it was a fall in the price of the commodities exported. But while these cases of persistent decline present the greatest difficulties, stagnation or violent fluctuation in export earnings pose problems which are similar, though perhaps in appearance less dramatic, and which adversely affect both income and foreign exchange balances. A decline in income retards growth and tends to narrow the national market for national products, to reduce savings available for investment, and to limit investment opportunities. This may bring about a decline in import demand, but at the same time the reduction in investment opportunities tends to slow down the inflow of outside capital. In any case the decline in foreign exchange earnings makes more difficult the financing of imports, including investment goods, and the servicing of external debts. This also tends to slow down the inflow of foreign credits and loans. Each of these circumstances is a matter of concern to the World Bank Group, since its purpose is to facilitate international movements of capital for productive investment.

5. It is natural that the developing countries suffering from these difficulties should first think in terms of stabilizing their earnings through marketing arrangements, control of production or exports, and other price stabilization or compensation schemes, designed to prevent further deterioration or to facilitate recovery of the international market for their vital exports. The Bank and its affiliates could make a direct contribution to such stabilization efforts only at the cost of diverting resources from the long-run investment objectives which their charters assign to them. But in almost every case of persistent decline, or of stagnating or erratic export earnings, the best hope for a lasting solution lies in increasing productivity and diversifying output. This in turn implies investment for soundly based economic development; and promotion of this type of investment is precisely the central purpose and function of the World Bank Group. To the extent that the Group furthers this purpose in primary exporting countries which are suffering—or have reason to fear—a serious decline or severe fluctuations in their export earnings, it will make a solid contribution towards the solution of their basic difficulties. The following paragraphs elaborate on certain aspects of the Group’s activity in this field.

A. DEVELOPMENT PROGRAMMES AND PROJECTS

6. The specific objects of Bank, IDA and IFC* financing are projects which may or may not form

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* This report is submitted by the President of the International Bank for Reconstruction and Development and the International Development Association in connexion with item 13 of the agenda. It is also to be submitted to the United Nations Commission on International Commodity Trade.


2 The International Finance Corporation.
part of a formal national investment programme or plan. In either case, however, the Bank Group constantly seeks to relate the projects it is considering to the country’s over-all economic needs and priorities. Where no adequate framework of priorities has been worked out by the national authorities, the Bank’s sector investigations and project identification work may, in effect, provide at least the rudiments of such a framework. There is, then, no inconsistency between the “project” and the “programme” approach. A general programme loses much of its effectiveness unless it is worked out in terms of specific, well-conceived projects; but most projects cannot be properly evaluated apart from their economic, social and administrative context. The Bank’s technique of development lending might properly be called a “programme/project approach”.

7. In considering projects for financing, the Bank Group takes account of various aspects—technical feasibility and soundness, employment effect, financial and managerial arrangements, the potential stimulus to development of other projects in the same or related sectors, and so on. The main emphasis, however, is placed on the rate and timing of their likely economic return, which largely determines their relative priority in the national economic framework. The role of a project may be to relieve an existing bottleneck in transport or power, in which case the economic return may be large and beyond controversy. Its role may be to stimulate exchanges (rail, roads, ports) or to provide ample power for industrialization. It may be to raise agricultural output and productivity, to expand industrial production or to create new industries; IFC is particularly active in the latter field. It may also be designed to relieve less easily recognized bottlenecks, such as a lack of labour skills or technicians; education has therefore also become an important object of the Bank Group’s investment.

8. Thus the main preoccupation of the Bank and its affiliates is by definition the same as that of its member countries themselves. It is to determine how each project contemplated for financing can contribute to production, productivity and (as is often necessary) diversification, and to establish what is its priority in terms of economic yield—in short, what place it deserves in the investment programme of the country.

9. The analysis and determination of these questions, i.e., the preparation of a soundly conceived and co-ordinated investment programme, is of course a difficult exercise even for a relatively simple economy; in many countries even the basic economic information required is deficient. Few countries in the early stages of development are equipped to undertake it, or to continue it over several years, as is necessary if forecasts and decisions are to be properly adapted to changing circumstances. It requires a rather complex assessment of national resources, present and potential, of the technologies appropriate to the local conditions of international market trends and possibilities, as well as of the ambitions and talents of the population. The cost of the investments required in different sectors to foster a satisfactory rate of growth must be related to the foreseeable financial availabilities. Appropriate policies and institutions must be devised to give proper incentives and direction to the development process.

10. Nevertheless, deliberate promotion of development entails choices among alternative investments, policies and administrative measures, and even in the simplest, least developed economies, it is advantageous that the national authorities make these choices rationally and on the basis of the best information obtainable. The Bank provides assistance to a number of its member countries, at their request, in orienting and formulating their development programmes—in some cases by means of general survey missions which make an inventory of the country’s economic resources, analyse its needs and potentialities, including its export possibilities, and sketch out the general lines of a development programme; in others through resident advisers to the planning authorities. Through its Economic Development Institute it helps to broaden the experience of civil servants of developing countries who are responsible for development policies.

11. To complement and fill out the comprehensive framework of national development programmes, the Bank has devoted special attention to assisting member countries with sector studies—notably in the fields of transport, power and the use of water resources—to permit an informed choice among alternative projects. These involve analysis of comparative costs, returns, and order of urgency. Sector studies of this kind are sometimes carried out by the Bank as Executing Agency for the United Nations Special Fund, sometimes financed from the Bank’s current income. The Bank also provides help to its members in preparing specific projects. Recently the Bank has completed discussion of formal agreements with the FAO and UNESCO under which these agencies, in their respective fields, will co-operate with the World Bank and IDA in helping member countries to identify and prepare projects for financing, and will assist in appraising them, in supervising their execution and operation, and in providing necessary technical assistance for their implementation.

B. SPECIAL CONSIDERATIONS APPLYING TO COUNTRIES WITH COMMODITY PROBLEMS

12. It has just been shown that the approach of the Bank in appraising the investment programmes of a country, and the projects which it may be called upon to finance, is essentially the same as that which the developing nations themselves are bound to adopt. The Bank will therefore have to dwell with particular care on the cases where, over the years, the structure of income and foreign balances has become dependent on a few exports the proceeds of which may show erratic tendencies—in other words, on the countries which have a “commodity problem”. The special obstacles facing these countries have been briefly described in paragraph 4. From the point of view of investment programming, they pose very difficult questions, some of them relating to the future domestic and foreign market for their products, some to the direction which investment should take under the circumstances, and some to the extent to which outside capital can be of assistance.
13. Leaving the last point for later consideration, it may be pointed out here that the Bank has been making commodity studies since its inception. One of the purposes of such studies is to help appraise the future foreign earnings of the developing countries and the extent to which they can maintain their import level while servicing, without undue sacrifice, the foreign credits, loans and private investment which they count on to supplement their own resources. But they also are meant to give some indication of the likely trend of the country’s income, of its welfare, and of the demand for both local and imported products other than the main export items.

14. Such studies are often undertaken in conjunction with the Bank’s assessment of the economic position and prospects of a particular member country at the time when a loan or credit is being considered. Some deal with problems common to several countries. One of the latter, a 1958 study on the international coffee market, has had wide circulation, and Bank experts have since participated in numerous conferences on the coffee problem. Recently, at the initiative of the International Coffee Council and in co-operation with the Food and Agriculture Organization, the Bank has agreed to take part in a major study of this problem, directed in part to seeking out alternative production and investment opportunities for the countries mainly concerned. The Bank is also engaged in carrying out an inquiry into world markets for long staple cotton. Other requests for similar studies may be forthcoming, and will be considered sympathetically within the limits of staff availabilities. The more general features of “persistent declines” or stagnation in export earnings of developing countries have recently been the object of special analysis by the staff of the Bank, and a research document on that subject will be issued separately for the information of the Conference.\(^3\)

15. The above-mentioned document points out that frequently the countries that have been adversely affected by “persistent declines” or erratic movements in their export earnings are those which depend largely on one or a few agricultural products; and, as is clear from the industrialized countries’ own experience, changing the basic pattern of agricultural production is a particularly slow process. In all developing countries economic progress should entail increasing productivity and diversification of production. Where agriculture is central, these tasks are both more urgent and more difficult.

16. An increase in productivity is to be hoped for first in the field of their main exports; this should in principle reduce costs and enable the country to weather world price fluctuations more easily. But success in this endeavour depends very much on the natural competitive advantages which the country may have, and on the costs involved in raising productivity. The Bank is currently co-operating with the OECD and the GATT in studies of the export potential of several countries, as a pilot project for more comprehensive research in this field.\(^3\)

17. Developing local production of foodstuffs is already one form of diversification. The extent to which the countries in question rely on imports for a substantial part of their home consumption has in fact been growing in the recent period. It has been estimated that while exports of foodstuffs from developing countries have risen by roughly $1,000 million over the last ten years, similar food imports have increased by some $1,500 million. This may provide an improved level of consumption, but it also means that imports for investment purposes must be curtailed when export earnings shrink, especially if the improved consumption standards have been financed partly on credit and therefore entail a foreign debt service.

18. Greater food production is therefore an objective of most developing countries, but agricultural diversification is a slow and difficult process at best. In addition, the home market is often limited, and broadening it to include other countries should allow for more diversified and more specialized production. Regional or international agreements may be no less important in this field, as a means of permitting production to be efficiently located and marketed, than for industrial products.

19. Industrialization, for both domestic and potential export markets, is an integral and essential part of the process of diversification. In a number of developing countries industrialization of all types, from processing of foodstuffs and other raw materials to advanced stages of manufacturing, has gone forward at a rapid pace over the recent decade, sometimes in spite of the income and foreign exchange difficulties arising from lagging export earnings. But the need for industrialization is enhanced by rural over-population. At the same time, if the shift of manpower from agriculture occurs without loss of output and with rising rural incomes, new markets are opened for the products of industry, and industrialization can proceed on a more solid basis.

C. The Bank Group in Agriculture and in Industry

20. Nearly one-tenth of the Bank’s financial commitments and well over one-fifth of those of IDA are for agricultural and forestry projects, mainly for irrigation and flood control, but also including farm mechanization, agricultural credit, land clearance, livestock improvement, forestry and fisheries, crop processing and storage. In addition there are a great number of transportation projects which benefit the agricultural sector by improving access to markets. Nevertheless, the Bank and IDA are convinced of the need to broaden and intensify their activities in support of agriculture, and the arrangements already cited for co-operation with the FAO are an evidence of this.

21. The investment requirements for agricultural projects are often not primarily for foreign exchange, but largely for local currency. This is especially true of projects for assisting small-holder cultivation and for expanding farm credit. In order to facilitate more effective investment in agriculture, the Bank is prepared to consider financing part of the local currency expenditure in this sector. This would make it easier to select projects on the basis of their essential merit.
and priority, irrespective of their foreign exchange component.

22. Careful study and efficient management of projects is no less essential in agriculture, if major improvement of productivity is to be achieved, than in industry, and they are usually more difficult to organize. The Bank, in co-operation with FAO, expects to play a much greater role in agricultural project preparation and appraisal. But well-prepared projects are not enough; in most countries there is need for a massive infusion of technical skills into all aspects of the agricultural sector, from marketing to extension services and to the management of credit institutions and of co-operatives. Local experts cannot always be found in sufficient numbers, and the lack of training facilities is a serious bottleneck. Better education is the key, and the Bank is expanding its activity considerably in this complicated field. A recent IDA credit to Pakistan should assist that country in training not only agricultural experts, but also teachers to train other agricultural specialists.

23. Just as agriculture must base its progress on development in other sectors, so industry depends not only on the existence of a market for its products, which agricultural progress would help broaden, but also on improvement in power, transportation and communications facilities. Of total commitments by the Bank, over two-thirds have been devoted to such infrastructure; almost the same is true of IDA. But direct financing of industry accounts for about 15 per cent of Bank commitments and about 3 per cent of IDA's, and virtually all of IFC's activity is devoted to industrial development. The variety of projects ranges from food processing to iron and steel, from industrial estates to industrial finance companies (or development banks). This last-mentioned type of support to industrial development has grown rapidly in recent years, and the World Bank group has assisted 18 such institutions; IFC has subscribed to the share capital of 13 of them.

24. For industrial development initiative and skills, both technical and organizational, are of primary importance. The experience of the more advanced countries can be drawn upon or adapted to advantage; it is not necessary to set forth here the role which private capital, including foreign private capital, plays in this respect. But it is of vital importance that nations be trained to play their role in technical, engineering and managerial jobs, in industry just as in agriculture. The required skills are in short supply even in industrialized countries, and the scarcity is much greater in developing countries. The keen interest which the Bank Group is now showing in financing education projects is thus a response to the requirements of development. Here also the co-operation with UNESCO should be of great benefit.

25. Assessing future markets for industrial goods is even more difficult than for agricultural products. Moreover, internal markets in many countries are too small to allow for the economic operation of certain industries. It is already recognized that processed foodstuffs, from meat or fish to fruit, can command good world demand; the same is true of several processed mineral products. But for a number of manu-

26. As an agency designed to lend for development, the World Bank is particularly concerned with the financial aspects of development. Even if promising and well-prepared projects were available in greater number—and in this respect the need for programming and technical preparation has been mentioned earlier—the World Bank would still have to take into account the potential borrower's capacity to service external debt. Rising levels of debt and of debt service payments are a normal concomitant of the growth process; indeed, they are inevitable as long as the investment programme entails large borrowing abroad. For numerous countries, however, this trend has coincided with a decline or stagnation in export earnings since the mid-1950s, so that the ratio of debt service to such earnings has increased, sometimes sharply.4

27. Fluctuations in foreign exchange earnings, moreover, may aggravate the growth of external debt. During the phase of rising export receipts optimism as to future export earnings may induce an expansion of imports, financed in part by short and medium-term borrowings; and as export receipts decline, there is a tendency to incur additional debt to maintain the accustomed level of imports. But whether or not they have this effect, there is no doubt that fluctuations in foreign exchange earnings greatly complicate the problem of debt management and of attracting additional development capital on conventional terms.

28. It has been a continuing preoccupation of the Bank Group to find means of mitigating the heavy debt burden that weighs on an increasing number of its member countries. This preoccupation was largely responsible for the Bank's advocacy of the creation of IDA and for the lenient repayment terms applicable to IDA credits, and it has been a major factor in determining the allocation of these credits. Government contributions to IDA are, however, very small in relation to the needs of the countries that are

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4 Economic Department, IBRD, Economic Growth and External Debt (Vol. IV of this series).
approaching the limits of their capacity to assume additional debt. The possibility of transferring to IDA a portion of the Bank’s net earnings, which might prudently have been distributed as a dividend, is under consideration. But the additional resources that may be made available in this way will still fall far short of meeting all the needs for which IDA terms are appropriate.

29. The terms of Bank loans may also be adjusted, to some extent, to mitigate the service burden. To this end, in certain cases where this was appropriate both to the project and to the debt position of the country, the Bank’s Executive Directors recently approved loans with longer periods of grace and amortization than have hitherto been customary. Such adjustments may have advantages for countries whose income and foreign exchange earnings may be expected to improve over the long run, but which in the medium term face less favourable export prospects or very heavy debt payments. They may be of assistance in carrying out a programme, the completion of which is threatened by temporary setbacks in the external position of the country.

30. A few countries are threatened with an acute cash squeeze which may require special action by their creditors. This kind of difficulty cannot be removed simply by a debt reorganization, unless that reorganization is accompanied by appropriate and effective agreements whereby the debtor country would take all measures within its capacity to bring its balance of payments under control and meet its obligations as they fall due; the creditors would provide the debtor with capital on long term to meet legitimate development needs; and both debtor and creditors would avoid in the future the kind of short-term credit transactions which may have contributed to the payments crisis. If all parties concerned are willing to accept appropriate disciplines in connexion with a debt adjustment, the Bank would be ready to consider adapting its own financing to the necessities of the situation, and to assist, when requested to do so, in working out the required new financial régime.

31. Implicit in all the foregoing discussion is the need for concerted policies and action, on the part of both the more and the less developed countries, to facilitate and rationalize the flow of productive capital, from the former to the latter. The World Bank Group is the channel for only a fraction of the total present flow of capital, but in some cases it may also play a significant organizing and catalytic role. One instance is its assistance to programming and project preparation, which not only provides a consistent framework in which investment funds from various sources can be absorbed more efficiently and rationally, but also should help to increase the availability of productive projects of demonstrated merit and priority for financing by the World Bank itself and from other sources.

32. Similarly, the comprehensive studies made by the Bank of the incidence and trends of the developing countries external debt have highlighted the problem of servicing capacity and the need to adjust the terms of aid so as to keep it from becoming unmanageable. Some progress has been made, in the Development Assistance Committee of the Organisation for Economic Co-operation and Development and other forums, towards internationally agreed liberalization of aid terms—although in the Bank’s view further progress in this direction is still urgently needed in many cases.

33. A significant development over the past four or five years has been the formation, with Bank participation or leadership, of international consultative groups for a number of developing countries, in order to facilitate the co-ordination of development assistance coming from various sources of financing as well as the World Bank Group. These arrangements provide an occasion for all aid givers to review periodically, often on the basis of studies prepared by the World Bank, the development programme and progress of the country in question, to examine the strengths and weaknesses so revealed, and the sectors or problems deserving priority attention, to analyse the country’s requirements for external financing and the pace at which they are likely to be met. Similarly, the developing country may be assisted in identifying and appraising specific projects and determining from what sources they can respectively be financed most advantageously.

34. It has been the Bank’s experience that this type of co-ordination, undertaken in close consultation with the developing country, generally tends to lead towards better programming and better utilization of external credit or aid. In addition, the developing country’s needs and potential sources of financing are related, in comprehensive fashion, with its limited debt servicing capacity; in this context, the need for improvement in the average terms of loans made to some countries emerges clearly, and substantial progress has been made in this regard. The Bank is prepared to expand, in appropriate cases, its participation in consultative groups or in similar consultations.

35. The Conference on Trade and Development is now engaged in deliberations which are of vital importance to all the developing countries. They are equally vital to the activities of the World Bank and its affiliated organizations, since financing economic growth is their function. Obstacles or retarding factors, such as loss of external earnings, slow growth of income, shortage of skills, inadequate programming, debt servicing problems, all are of great concern to the developing countries as well as to the World Bank Group. The Bank and its affiliates therefore stand ready, to the extent they are empowered and able to do so, to offer their assistance—be it in the form of financing, consultations, studies, or fostering cooperation with other sources of development financing.
INTERNATIONAL TRADE IN EDUCATIONAL AND SCIENTIFIC MATERIALS*

1. This report is intended to provide elements for discussion, under item I of the Agenda, of measures which might be taken to increase the supply of materials needed for training programmes in the development of human resources.

2. The report consists of two parts. The first describes the problem of increasing the supply of these materials to the developing countries; the second part reviews remedial efforts undertaken in that field.

PART I. THE PROBLEM

3. The ultimate justification for the development of human resources is man's basic right to the full realization of his potentialities. In addition, however, the development of human resources is a crucial factor in stimulating economic growth. Numerous studies analysing the economic history of countries at varying stages of development arrive at a common conclusion: the increase in inputs of labour and capital in a given period does not fully account for the expansion of general output achieved in subsequent periods.

4. Indeed, in a number of cases the role of these two factors in economic growth appears to be quite minor. The residual element—often referred to as the "human" factor—which is left after the contribution of labour and capital is allowed for can be very considerable. It has been tentatively estimated that in some developing countries this element accounts for up to half of the increase in the gross national output. It is evident, therefore, that the human factor in economic growth is extremely important and warrants attention in efforts to achieve the targets of the Development Decade.

Education and economic development

5. Education is clearly a crucial element in the enrichment and full use of the human factor. That is not of course to say that any kind of education will suffice, nor that education can of itself bring about more rapid progress without regard to other factors affecting economic and social welfare, such as nutrition, housing and hygiene. None the less, whether it is understood in the broad sense of learning and application or in the more limited one of formal schooling and other programmes of instruction, the importance of education to economic development is fundamental.

6. The problem which the developing countries face in achieving the necessary expansion of their educational facilities is enormous. Some 45 per cent of the world's children wholly lack educational facilities and about half of the adult population is still illiterate. A great and concerted effort is needed to improve this condition.

7. Such an effort has already been envisaged in far-reaching plans which have been drawn up at conferences convened by UNESCO for the development of education in Africa, Asia and Latin America. Moreover, the General Assembly of the United Nations, in a resolution adopted at its eighteenth session in December 1963, invited Member States in whose territories illiteracy is still widespread to give priority to its eradication within their general development plans. Other Member States, as well as interested non-governmental organizations, were requested to support these national efforts by contributing technical and/or financial assistance. In addition, the General Assembly requested UNESCO to pursue its work in the eradication of illiteracy and invited the Secretary-General of the United Nations, in collaboration with UNESCO, the Special Fund, the Technical Assistance Board and the World Bank and its affiliates, to study means of supporting national efforts through a world campaign and other measures of co-operation and assistance. Implementation of these programmes will require a vast expansion of educational facilities, both in and out of school, in the developing countries.

8. The eradication of illiteracy is, however, only one aspect of the problem. The Secretary-General of the United Nations Conference on the Application of Science and Technology for the Benefit of the Less-Developed Areas (UNCSAT), held at Geneva in February 1963, underlined this point when he stated: "The core of human resource development is the planning and execution of a policy of education and training—two aspects of the same co-ordinated process designed to provide the trained manpower at all levels of skill required to achieve the objectives of the economic development plan."8

9. All of the developing countries face an acute shortage of technically qualified personnel—a lack which is perhaps felt most acutely in the intermediate grades. In many cases, only if crash programmes are started immediately will the developing countries be able to provide the trained manpower required to achieve the targets of the Development Decade.

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* This paper was prepared by the secretariat of the United Nations Educational, Scientific and Cultural Organization in connexion with the item on the subject of "Expansion of international trade and its significance for economic development" (item I of the list of main topics). See Interim Report of the Preparatory Committee (first session), in Vol. VIII of this series.


able to cope with the demand for qualified manpower which will arise from the implementation of their development programmes. The expansion and maintenance of teaching facilities in the complex, swiftly changing fields of science and technology require considerable additional resources both in terms of human skills and in materials and equipment. There is, in addition, an associated need to provide increased research facilities in the developing countries, with emphasis on the study of practical, local applications of scientific and technical knowledge.

10. These points were also examined by the Secretary-General of the UNCSAT, who considered that it would be necessary to develop training programmes new in structure, methods and means of application. He commented that, on the one hand, many of the developing countries must start from almost nothing in the way of training facilities. On the other hand, he added, “the climate of development planning, the great advances in pedagogical methods and in the use of audio-visual aids and mass communication techniques—all these point to the need for a comprehensive, dynamic and imaginative programme of education and training based on research into local circumstances, rigorously planned and oriented towards the demand for various categories of manpower emerging from the development plan as a whole.³

Role of the mass media

11. The point made by the Secretary-General of the UNCSAT that audio-visual and other mass communication techniques could be used to raise educational levels on a broad scale was also emphasized by the General Assembly of the United Nations in a resolution adopted in 1962 which urged UNESCO to continue to further the programme for development of information media in the developing countries, "including the application of new techniques of communication for achievement of rapid progress in education."⁴ Administrators in the developing countries are in fact increasingly recognizing that the mass media, unsurpassed in speed, range and economy, offer wide possibilities for providing technical instruction and training, as well as general education, on a broad scale. This consideration is of great importance to communities which are seeking to achieve, in a matter of years, what it has taken the developed countries centuries to accomplish.

12. A reciprocal relationship would in fact seem to exist between development of the mass media and economic and technical development. That at any rate was one of the conclusions emerging from a survey which UNESCO recently carried out, at the request of the United Nations, on development of the information media in the developing countries and which was the basis of the General Assembly resolution mentioned above.⁵ On the one hand, a society must reach a certain level of wealth and technological advancement before it can establish and maintain the services of the mass media. On the other hand, the media can markedly stimulate the capacity to create further wealth and can spur technical progress by enlisting the human factors, such as improved skills and better education, more directly in efforts for economic expansion. The mass media can thus serve effectively in winning public support and participation in those efforts. This active public participation in turn facilitates more effective planning by governments and other agencies, and thus becomes a key element in the industrialization of developing countries. It is thus apparent that the mass media grow with and contribute to a nation’s general economic development.

13. However, poverty in educational facilities is in general matched by poverty in facilities for mass communication. The UNESCO survey referred to above showed that nearly 70 per cent of the world’s people, living in over a hundred countries of Africa, Asia and Latin America, have less than the minimum standard of such facilities. Rural areas of these countries are poorest in means of communication. It is these areas, moreover, that are generally most lacking in facilities for formal education.

Materials needed

14. Economic progress in the developing countries in the years ahead will call for a vast increase in quantities of educational materials of many kinds, ranging from textbooks and paper to apparatus for the laboratories which will train the scientists and technicians of those countries. It will also require an increase in the quantities of materials and equipment needed in development of the mass media for educational purposes.

15. It is of course difficult to arrive at any standardized list of the categories of materials which will be needed, taking into account the varying economic and social problems of the developing countries. This was evident from consultations carried out with Governments by UNESCO Chiefs of Mission in the developing countries of Africa, Asia and Latin America when gathering data for the present report. However, an indication of the categories of materials involved may be found among those listed in the five annexes to the UNESCO Agreement on the Importation of Educational, Scientific and Cultural Materials.⁶ It is evident that any decision on the materials deemed essential for training programmes will vary from country to country depending on local conditions.

16. It is a safe assumption that all of the categories of materials involved in training programmes will be needed in increased quantities during the period of the Development Decade. While it is difficult to arrive at precise estimates of the anticipated expansion of demand for these materials, an indication may be gleaned by reference to future requirements of printing paper, which, as an index to the printed word, may be broadly representative of demand generally for the materials in question.

17. A recent study on the growth of demand for printing paper indicates that three factors—growth in population, growth in per capita income and the spread of literacy—largely govern the increase in

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³ Resolution 1778 (XVII).
⁵ See Appendix and para 23.
demand for this material in the developing countries.\(^7\) The report applies its findings to the situation which is likely to develop in Africa and Asia. In 1955, consumption of printing and writing paper in these two regions totalled 732,000 tons. Assuming an annual rate of growth, on a conservative basis, of 1.6 per cent in population and of 2 per cent in \textit{per capita} income, combined with a two-thirds reduction in illiteracy between now and 1975, demand in that year would probably amount to some 4,400,000 tons, about six times the 1955 figure. It may be noted that implicit in this anticipated demand for printing paper is a concomitant increase in requirements of printing machinery. It may also be noted that in countries with a high rate of illiteracy, an increase of 1 per cent in literacy is likely to have the same impact on printing paper demand as an increase of 5 per cent in \textit{per capita} income.

18. Another indication is available from the field of radio broadcasting, which is now expanding more rapidly in the developing countries than any of the other mass media. Africa at present has a total of 5.5 million receivers, Asia (excluding Japan) 15 million and Latin America 21 million. UNESCO estimates of the potential market for low-cost receivers in all three regions, based on a target of one set for every family (or one for approximately every five persons), indicate that for all three regions some 400 million additional receivers would need to be provided—a number ten times as great as the existing total for those areas and, in fact, equal to the total for the whole world today.

19. The developing countries may be expected to try to produce locally, as far as possible, the materials needed for their training programmes. The organization of local production on a sufficient scale requires both physical and human capital as well as due study of the comparative costs of production. Meeting the needs of the developing countries in educational fields, therefore, will take some time, and this period will vary from region to region and country to country. For this reason, the developing nations will probably find it necessary to rely to a large extent upon imports. It is evident that this will constitute an additional burden on the balance of payments in these countries. However, in view of the importance of training programmes for general development, educational materials should be given high priorities among imports. It is obvious that in each country the establishment of priorities depends largely on the foreign exchange situation and on the interests of nascent domestic industries. Increasing efforts have been made in recent years to grant special import dispensations to educational and scientific materials when such facilities can be accorded without elaborate administrative machinery or when internationally acceptable procedures can be devised. As one Asian country commented in a communication to UNESCO, “multi-lateral and bilateral trade treaties and agreements can help a lot in easing the importation of educational, scientific and cultural materials”.

20. Following is an account of some of the methods which have been devised to ease the flow of educational and scientific materials to the developing countries.

\section*{PART II. EFFORTS TO EASE THE FLOW OF MATERIALS}

\subsection*{International agreements and arrangements}

21. The agreements which are relevant here are primarily concerned with the reduction of tariff barriers. In the first instance, the General Agreement on Tariffs and Trade has provided the framework for the lowering of duties on a broad range of commodities, including educational and scientific materials.

22. In addition, UNESCO has at tariff-negotiating conferences of the GATT submitted lists of educational and scientific materials for possible tariff reduction. Subsequently a number of countries agreed to lower tariffs on various materials listed, including books, maps and charts, newsprint and other printing paper, film and film projectors, radio and television equipment and scientific instruments.

23. A further initiative has been the sponsorship of international agreements designed specifically to promote the flow of informational, educational and scientific articles and equipment. The first of these agreements, adopted by the General Conference of UNESCO in 1950, is the Agreement on the Importation of Educational, Scientific and Cultural Materials. It exempts from import duties a wide variety of articles, including books and other publications, maps, charts and designs. Also exempt are educational films, sound recordings, scientific equipment and materials for the blind if consigned to approved institutions. In addition, Governments undertake to grant foreign currency as far as possible for the importation of these materials and particularly of books. This agreement is now being applied by forty-four countries.\(^8\)

24. A second, complementary agreement, adopted by the General Conference of UNESCO in 1948, is the Agreement for facilitating the International Circulation of Visual and Auditory Materials of an Educational, Scientific or Cultural Character. It grants tariff exemption to educational films, filmstrips, sound recordings, wall charts, maps and posters, regardless of destination, and also frees them from quota and import licensing restrictions. Sixteen countries have adhered to this Agreement.\(^9\)

25. Both of the above-mentioned Agreements are to be reviewed at a meeting of governmental experts which the General Conference of UNESCO, at its thirteenth session in October-November 1964, will

\(\text{\^{7}}\) The Place of Paper in Development and Foreign Aid; Institute for International Economic Studies, Stockholm, with the assistance of the FAO and UNESCO: considered by the FAO Advisory Committee on Pulp and Paper, Rome, April-May 1963.

\(\text{\^{8}}\) Afghanistan, Austria, Belgium, Cambodia, Ceylon, Congo (Leopoldville), Cuba, Cyprus, Denmark, El Salvador, Federal Republic of Germany, Finland, France, Gabon, Ghana, Greece, Guatemala, Haiti, Israel, Italy, Ivory Coast, Jordan, Laos, Luxembourg, Madagascar, Malaysia, Monaco, Netherlands, New Zealand, Nicaragua, Nigeria, Norway, Pakistan, Philippines, Sierra Leone, Spain, Sweden, Switzerland, Tanganyika, Thailand, United Arab Republic, United Kingdom of Great Britain and Northern Ireland, Viet-Nam, Yugoslavia.

\(\text{\^{9}}\) Brazil, Cambodia, Canada, Denmark, El Salvador, Ghana, Greece, Haiti, Iran, Iraq, Madagascar, Norway, Pakistan, Philippines, Syria, Yugoslavia.
consider convening in the 1965-1966 period. The meeting would attempt to resolve any difficulties which may have arisen in the operation of the Agreements so that they may be more widely applied.

26. Three international conventions designed to ease the temporary importation of professional equipment and materials for exhibitions and conferences have meanwhile been elaborated by the Customs Co-operation Council in consultation with the GATT and UNESCO. The first convention, dealing with professional equipment, provides for the admission of various articles, including equipment needed by representatives of the press, radio, cinema and television visiting a country for purposes of reportage, broadcasting and film production. The convention also covers instruments required by technical experts and physicians.

27. The second convention grants temporary admission to materials for educational, scientific and other exhibitions and conferences. Articles benefiting from this convention include films, sound recordings, interpretation equipment and film projectors. The third convention provides a carnet which replaces national documents when the conventions on temporary importation are being applied.

28. In addition, a scheme designed to assure the safe and rapid transit of delicate scientific measuring instruments through the customs is sponsored by UNESCO. Under a distinctive label, packages receive customs clearance at the sending or receiving laboratories rather than at the customs depots, thus avoiding possible damage or delay. Over 200 laboratories in thirty-one countries are benefiting from this arrangement.10

Bilateral trade and payments arrangements

29. On the bilateral level, the network of trade arrangements prevailing between a large number of countries has become a familiar feature of contemporary economic life. These trade arrangements in some cases permit one partner to import educational and scientific materials from the other as part of their provisions, with the exporting country agreeing to accept payment in local currency. An example of an attempt to ensure such facilities for the supply of one of the categories of materials referred to here, namely printing paper, has been initiated by the FAO in cooperation with UNESCO. Under a distinctive label, packages receive customs clearance at the sending or receiving laboratories rather than at the customs depots, thus avoiding possible damage or delay. Over 200 laboratories in thirty-one countries are benefiting from this arrangement.11

30. An example of a multilateral arrangement is the UNESCO International Coupon Scheme, which enables institutions and individuals in Member States to obtain publications, charts, educational films, recordings and scientific materials from abroad, despite foreign exchange difficulties. Under this scheme, UNESCO provides distributing agencies appointed by Governments with coupons payable in US dollars, pounds sterling or French francs. The coupons may then be sold for local currency. The purchaser of a coupon orders the material he needs direct from a manufacturer or distributor abroad who, in turn, is repaid by UNESCO in his own currency. Twenty-nine countries are at present participating in the scheme as purchasers or suppliers, and transactions to date have totalled over $50 million.

Loans and grants

31. Acute shortages of foreign currency have made loans and grants an inevitable expedient for the procurement of educational and scientific materials. On that score, the secretariat of the United Nations Economic Commission for Africa and the Far East (ECAFE) has commented in a communication to UNESCO that "any facilities and arrangements which would increase the availability on a grant basis and on an easy loans and payment basis for the purchase of educational equipment would be particularly valuable for the countries of the ECAFE region, where both income levels and educational standards are rather low in many countries. Factual information on individual countries' requirements of, or projected demand for, educational equipment gathered by UNESCO working groups would be most useful to the ECAFE secretariat which could then try to explore the availability of these from all possible sources and advise Governments."

32. The World Bank has under consideration the possibility of extending loans for school facilities where such facilities warrant high economic priority. Among other possible sources of financing the importation of educational and scientific materials is an affiliate of the World Bank, the International Development Association (IDA), which provides development credits for educational purposes. A recent case in point is an IDA credit of $4.6 million to an African country to help finance the construction of new schools and to help equip these and other schools.

33. In providing comments for the present report, another African country observed that the United Nations Conference on Trade and Development might usefully study the possibility of establishing, under international auspices, a system of loans or credits specifically designed to meet priority needs for equipment for training institutions. It was observed that,
in conformity with IDA practices, the interest rate for such loans should be as low as possible and repayment should be on an long-term basis. Failing the establishment of an international framework, it was suggested, the Conference might consider recom­
mending that Governments ease credit terms for bilateral loans to the developing countries for pur­
cesses of training equipment and also grant export subsidies to manufacturers specifically for the purpose of easing the flow of such materials in the countries concerned.

Appendix

ANNEXES TO THE AGREEMENT ON THE IMPORTATION OF EDUCATIONAL, SCIENTIFIC AND CULTURAL MINERALS

A. BOOKS, PUBLICATIONS AND DOCUMENTS

(i) Printed books.
(ii) Newspapers and periodicals.
(iii) Books and documents produced by duplicating processes other than printing.
(iv) Official government publications, that is, official, parlia­mentary and administrative documents published in their country of origin.
(v) Travel posters and travel literature (pamphlets, guides, time-tables, leaflets and similar publications), whether illustrated or not, including those published by private commercial enterprises, whose purpose is to stimulate travel outside the country of importation.
(vi) Publications whose purpose is to stimulate study outside the country of importation.
(vii) Manuscripts, including typescripts.
(viii) Catalogues of books and publications, being books and publications offered for sale by publishers or booksellers established outside the country of importation.
(ix) Catalogues of films, recordings or other visual and auditory material of an educational, scientific or cultural character, being catalogues issued by or on behalf of the United Nations or any of its specialized agencies.
(x) Music in manuscript or printed form, or reproduced by duplicating processes other than printing.
(xi) Geographical, hydrographical or astronomical maps and charts.
(xii) Architectural, industrial or engineering plans and designs, and reproductions thereof, intended for study in scientific establishments or educational institutions approved by the competent authorities of the importing country for the purpose of duty-free admission of these types of articles.

The exemptions provided by Annex A shall not apply to:

(a) Stationery;
(b) Books, publications and documents (except catalogues, travel posters and travel literature referred to above) published by or for a private commercial enterprise, essentially for advertising purposes;
(c) Newspapers and periodicals in which the advertising matter is in excess of 70 per cent by space;
(d) All other items (except catalogues referred to above) in which the advertising matter is in excess of 25 per cent by space. In the case of travel posters and literature, this percentage shall apply only to private commercial advertising matter.

B. WORKS OF ART AND COLLECTORS' PIECES OF AN EDUCATIONAL, SCIENTIFIC OR CULTURAL CHARACTER

(i) Paintings and drawings, including copies, executed entirely by hand, but excluding manufactured decorated wares.
(ii) Hand-printed impressions, produced from hand-engraved or hand-etched blocks, plates or other material, and signed and numbered by the artist.
(iii) Original works of art of statuary or sculpture, whether in the round, in relief, or in intaglio, excluding mass-produced reproductions and works of conventional craftsmanship of a commercial character.
(iv) Collectors' pieces and objects of art consigned to public galleries, museums and other public institutions, approved by the competent authorities of the importing country for the purpose of duty-free entry of these types of articles, not intended for resale.
(v) Collections and collectors' pieces in such scientific fields as anatomy, zoology, botany, mineralogy, palaeontology, archaeology and ethnography, not intended for resale.
(vi) Antiques, being articles in excess of 100 years of age.

C. VISUAL AND AUDITORY MATERIALS OF AN EDUCATIONAL, SCIENTIFIC OR CULTURAL CHARACTER

(i) Films, filmstrips, microfilms and slides, of an educational, scientific or cultural character, when imported by organiza­tions (including, at the discretion of the importing country, broadcasting organizations) approved by the competent authorities of the importing country for the purpose of duty-free admission of these types of articles, exclusively for exhibition by these organizations or by other public or private educational, scientific or cultural institutions or societies approved by the aforesaid authorities.
(ii) Newsreels (with or without sound track), depicting events of current news value at the time of importation, and imported in either negative form, exposed and developed, or positive form, printed and developed, when imported by organizations (including, at the discretion of the importing country, broadcasting organizations) approved by the competent authorities of the importing country for the purpose of duty-free admission of such films, provided that free entry may be limited to two copies of each subject for copying purposes.
(iii) Sound recordings of an educational, scientific or cultural character for use exclusively in public or private educational, scientific or cultural institutions or societies (including, at the discretion of the importing country, broadcasting organizations) approved by the competent authorities of the importing country for the purpose of duty-free admission of these types of articles.
(iv) Filmstrips, microfilms and sound recordings of an educational, scientific or cultural character produced by the United Nations or any of its specialized agencies.
(v) Patterns, models and wall charts for use exclusively for demonstrating and teaching purposes in public or private
educational, scientific or cultural institutions approved by
the competent authorities of the importing country for the
purpose of duty-free admission of these types of articles.

D. SCIENTIFIC INSTRUMENTS OR APPARATUS

Scientific instruments or apparatus, intended exclusively for
educational purposes or pure scientific research, provided:
(a) That such scientific instruments or apparatus are con­
signed to public or private scientific or educational institutions
approved by the competent authorities of the importing country
for the purpose of duty-free entry of these types of articles, and
used under the control and responsibility of these institutions;
(b) That instruments or apparatus of equivalent scientific
value are not being manufactured in the country of importation.

E. ARTICLES FOR THE BLIND

(i) Books, publications and documents of all kinds in raised
characters for the blind.
(ii) Other articles specially designed for the educational, sci­
entific or cultural advancement of the blind, which are
imported directly by institutions or organizations concerned
with the welfare of the blind, approved by the competent
authorities of the importing country for the purpose of
duty-free entry of these types of articles.
NOTES ON THE UNITED NATIONS CONFERENCE ON
TRADE AND DEVELOPMENT*

I. The relation of trade to aid

1. This Conference has been called—as I conceive it—in conjunction with the so-called "Development Decade" to discuss the impact and possible positive role of international trade on the development of the poor areas of the world, and devise measures to create a favourable, or at least to mitigate its present unfavourable, influence. There is general agreement on the need to reduce the gross inequality in the international distribution of income and, I take it, also about the undeniable fact that this inequality has been increasing, despite a growing volume of aid in terms of technical assistance and resources, not the least because of the worsening of the terms of trade between primary goods and manufactures. It is this latter problem which was the immediate cause of organizing the proposed conference.

2. Conversely, even if the proximate cause of the relative (and, in many cases, even absolute) worsening of the position of the poor countries was the deterioration of the terms of trade, it does not follow that their improvement is the only or even the optimal way of reversing this misfortune. After all, development in the primary producing areas was not at all satisfactory when the terms of trade were more favourable, and it has to be shown both that their improvement would be better utilized and that the burden of the improvement would be distributed in a satisfactory manner. I shall contend that in neither respect is the outlook favourable, and that the improvement of the terms of trade is not the best way of securing international economic equity.

3. Admittedly within certain limits trade questions can be divorced from total redistribution from the rich to the poor areas; but we are not here talking about marginal variations in specific trade either in volume or in value, but of grosso modo changes in the balance of payments sufficiently big so as to affect the rate of development and economic health of the poorer developing countries. At this level, obviously a sharp division between trade and aid can no longer be made, and I shall contend that an increase in aid, if well administered and justly distributed is preferable to the

* This paper by Professor Thomas Balogh, Fellow of Balliol College, University of Oxford, is submitted to the Conference in the belief that its contents will be of considerable interest to Governments. It is submitted in connexion with the subject of "Expansion of international trade and its significance for economic development" (item I of the list of main topics). See Interim Report of the Preparatory Committee (first session), in Vol. VIII of this series. Its relation to other agenda items may be seen from the table of contents. The views expressed in the attached paper are not necessarily those of the Secretary-General of the Conference.
same increase in purchasing power of the poor countries brought about through a deliberate improvement in the terms of trade.

5. In order to secure the political acceptability for the greatest possible degree of redistribution of income from the rich to the poor, and thus to reverse the present drift towards increased inequality in the international distribution of income, it would seem essential to ensure that the proposed instruments would operate in an equitable manner. Without that, a new approach to relationships between foreign nations could hardly be achieved except on the basis of immediate short run political considerations (e.g., the “cold war”) the persistence of which is in doubt. In any case, such considerations can hardly be assumed to provide a strong enough moral basis for a sustained effort, and only a sustained effort is likely to achieve the aim, since the poorer areas are menaced by a torrential increase in population.

6. In the first place total aid given to any one country would have to be in close relationship with need. The importance of this can be stressed in the light of the unfortunate political effects of the aid generously given to Asiatic countries. In consequence of the openly political motivation in the distribution of this aid, the succour given to notorious dictators impaired the political impact of aid elsewhere, even when given in the most altruistic spirit.

7. It is equally essential that the burden should fall with obvious equity on the contributing areas. The trade relationship between the rich and the poor is subtle and continuous rather than abrupt and manifest. Any attempt to lay the burden unfairly or arbitrarily on some countries while others much more able to bear it escape its weight, would certainly create serious resentment in the unfairly hit countries and, in the end, undermine the spirit which is needed all round if this undertaking is to come to a successful fruition. It is from this point of view that I shall attempt to discuss some of the proposals made.

II. GENERAL CONSIDERATIONS ON THE TERMS OF TRADE; THE SOCIOLOGY OF THE “PREBISCH EFFECT”

(i) The relation of the terms of trade to aid

8. The worsening in the relationship between the prices of the exports and imports of poor areas, the so-called “Prebisch effect”, has to a very large extent been responsible for the failure of international aid—which has become available in increasing volume since 1952 both in terms of “know-how” and in terms of resources—to accelerate substantially the rate of increase in production in the poor areas of the world and, consequently, responsible also for the increase in international inequality. It is obvious, therefore, that the immediate reaction of people should be that this deterioration must be halted, indeed reversed, if the poor areas are to be helped. Opinions differ about the most efficacious way of implementing this policy but there has been very little dissent from the proposition that “trade is better than aid”.

9. The deterioration of the terms of trade has no doubt played an important part in the growing international inequality in income distribution. It should be noted, however, that the rich primary producing countries, notably Australia, have been able to offset and in some respects more than offset, the deterioration in the price of primary produce by increases in productivity. This more than proportional increase in production offsetting the fall in the relative attractiveness in exports, as a result of the fall in their price, was able to assure greater equality in income distribution in the producing country than would have been attained if the price of exports had been higher and the production lower, for production for the outside market, even after the fall in price was still much the most profitable use of land and other natural resources.

(ii) The terms of trade and the fully industrialized countries

10. Indeed rational judgement on the relative merit between trade and aid will in the end depend on the diagnosis of the reasons of the “Prebisch effect” of the worsening of the terms of trade. If one believes that this unequal relationship is the outcome of the difference of the character of markets, the remedy is simple. The prices of manufactures, according to this view, increase absolutely and relatively to those of primary goods because entrepreneurs react to falls in demand by restriction in output, and wage-earners in the rich countries are able to force up their wages pari passu with increasing productivity (or worse: cause wage-cost induced inflation). Primary products, on the other hand, are sold in more or less “perfect” world markets. The primary producer is unable to cut production because the alternative to his producing a cash crop is his production for subsistence—a far less attractive proposition. In consequence, any increase in productivity or production is captured by the consumer.

11. It follows that the terms of trade could be improved by offsetting this difference in the character of markets for the respective products. An export tax on primary produce or a stabilization through currency reform of primary prices is proposed, to be followed by a devaluation of the currency of the (less dynamic) industrial countries. As the latter are less than fully employed and as the trade between industrial countries does not provide a “net” stimulus to production in the latter, this procedure would involve no losses to these industrialized countries. A simpler alternative would be a uniform proportional export tax on all primary produce, or a more complicated scheme of variable export taxes supporting a system of restricting production.

12. I shall deal with the problem of export taxes and restriction of production below.8 In this context, I would just assert categorically that the former need

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8 See para. 33.
not, and probably will not, lead to a restriction of production, while the latter, as we know, is difficult to organize directly, and is likely to break down.\(^3\)

13. What needs to be discussed here, however, is the underlying sociological analysis of the problem. Politically, it would be far less difficult to obtain assent in the fully industrial countries to deficit finance or foreign aid, or a stimulus to home investment leading to an "autonomous" increase than to measures involving international currency reform, a deliberate worsening of the terms of trade and the like. It should be noted (but will only be discussed below) that the burden of the policy would fall inequitably on the shoulders of those countries which permitted imports from primary producing countries. The more autarkic a country has been, the less it would have to contribute. The benefits, moreover, would accrue to a number of very rich areas, notably the United States. This would not render acceptance easier by other countries.

(iii) The sociological framework of primary production in poor areas

14. So far as the primary producers are concerned, these proposals seem to be based on a superficial view of the complex sociological problems involved in the unequal relationship of primary to manufacturing production. The incapacity of the primary producer to "capture" by price increases (or at least the maintenance of prices) a fair share of the fruits of an improvement in productive methods (or extension of production) is not due merely to the fact that manufacturing is monopolized while primary production is not. There are far greater differences, all of which combine to maintain the present gross inequality but which could by no means be waived away by an effortless use of a monetary "gimmick".

15. In the first place, cash crops primarily for export are in a number of poor primary producing countries, notably in Asia and Africa, the main generator of money incomes.

16. This means, conversely, not only that, in the main, these commodities must find an outlet abroad, but also that no analogy can be drawn between them and the oligopolistic wage-push inflationary price-determination of manufactured goods. For the latter, the home market is the determinant one. In their case, therefore, increases in price due to the cost-push also increases income and \textit{ipso facto} provides markets.\(^4\)

17. Last but not least, the cash export crops, because they are the main—and often the sole—generators of money income, are usually also by far the most attractive crop. This is evidently so in poor areas of traditional subsistence farming, where the opportunity cost of growing cash crops is minimal. But it is also the case in areas of feudal tenure where certain cash crops (meat, wheat and coffee in South America, wheat and olives in the Mediterranean) represent the easiest way of assuring a safe income from the share-cropping peasant or serf.\(^5\) This has fatal consequences on the relative bargaining strength of primary producers. They have neither the technical "know-how", nor the technical means, nor the sociological incentive to shift their productive activity, and thus obtain better prices for their exports.

(iv) Aid, trade and development

18. The "Prebisch effect" is thus deeply embedded in the sociological framework of the primary producers. Two important conclusions follow, which will be the basis of our discussion of certain facile and plausible proposals in subsequent sections of this paper. The first is that it will be difficult to expect the reversal of the unfavourable trend for primary producers until the sociological framework in the respective countries has been changed; and, secondly, that this change in the sociological framework is much more likely to be stimulated, indeed induced, by the impact of well-aimed aid programmes giving alternative employment to rural labour. Trade, and especially an induced improvement in the terms of trade is no alternative to a well-conceived programme of aid combined with internal reform. Its effects might, indeed probably will, without such change in the sociological framework, be reaped by beneficiaries who will not contribute to the final development of the poorer countries. A limitless sociological sink will open, absorbing aid without visible return, much like those aid schemes which have been launched (especially in eastern Asia) without insistence on reforms. Well-conceived aid is better than trade would be a more truthful statement than the reverse, even if it would be foolish to press the point too far.

19. This conclusion is very much strengthened if one reflects that improvements of trade would not bring help to the most hard pressed countries in proportion to their need, and its burden would not fall equitably on the various potential contributing countries.

20. Developing countries with large exportable cash crops are not obviously the poorest. On the contrary, while in some cases—e.g., Iraq of the pre-revolutionary era—the possession of valuable raw materials or foodstuffs producing capacity did not much benefit the population at large, it is still true that potentially the country was far better off than others not so endowed. This is even true in countries—e.g., South Africa—which pursue unrelenting social policies and discriminate against certain sections of the population which make up the bulk of the working class. In addition, not all primary producers are poor countries. Some—the United States, the Old Dominions—are the richest in the world. If measures to improve the terms of trade of the primary products are taken unrelentingly, it is very likely that it will be the less-needy who will benefit most.\(^6\)

\(^3\) Mr. Kaldor has brilliantly analysed the reasons for this (See "Stabilizing the Terms of Trade of Underdeveloped countries," \textit{Economic Bulletin for Latin America}, March, 1963, p. 4-5). (See also paras. 33-39).


\(^6\) It is interesting to note that the proposal to increase the value of gold has been opposed on precisely the ground that it would benefit the richest areas with high gold reserves.
21. In the same way, the burden of any redistribution of purchasing power in favour of primary producers through an improvement in the terms of trade, would fall upon the back of those whose purchases already contribute to the maintenance of purchasing power in primary producing countries, while those countries which, because of geographical reasons or because of purposive policies, exclude import of primary produce, will either be burdened less or benefit. The United States and France, each in its way, have maintained extreme protection of their primary produce and would probably benefit from such a scheme. Britain and, to a lesser extent, Germany and Japan, would be losers, and the first is likely to be driven to greater autarky either by way of increased restrictions and tariffs or by devaluation.

22. The stabilization of some commodity prices through export quotas and production controls should prove feasible. Moreover, certain creditor countries have imposed rather heavy taxes on the consumption of a number of tropical products. Their removal is obviously to be striven for, as is the relaxation or the deliberate import saving practised by most socialist countries which consume far less of these tropical products than the non-socialist areas of corresponding national income or even consumption level. Thus some stabilization or even improvement of primary producing prices should be possible and any policy which prevented the implementation of such schemes should no doubt be reconsidered. Nevertheless, an exclusive concentration of effort on the increase in primary prices is not likely to prove either economically or sociologically as efficacious in improving the standard of living and mitigating existing inequalities in the poor countries as a balanced effort through aid to stimulate balanced and viable industrial development in the poor countries.

23. Those who plead for an improvement in the terms of trade of primary producers would argue that the present situation actually represents a worsening of the position of the poor areas, probably even relative to 1956, and certainly to 1951-1952, even if the increase in the level of aid which has taken place is included. There is, in their view, no logic in accepting the actual position rather than improve it first and then give aid.

24. This argument neglects the great differences in the development of the price of different commodities. Sugar, one of the more important tropical products, has recently reached its best relative value in the last hundred years or so, while in the case of sisal, to quote another example, producers are already apprehensive that the rise will result in the replacement of the product by some new plastic material.

25. The stimulation of trade as against aid has the further drawback of not being necessarily connected with the creation of conditions favourable to development. A large part of the gain on previous occasions, when the primary product prices were favourable, was dissipated in luxury spending. The poor benefited relatively little and an increase in investment sufficient to start a cumulative improvement did not take place. No doubt aid has been often used, especially in Asia, for the propping up of tottering feudal élites, and has enriched people who did not contribute in any way to the development of their country. Nevertheless, it stands to reason that purposive aid planned for whole subcontinental regions rather than (small) individual countries, channelled into strategic projects well-worked out and administered partly through administrators and other experts from abroad, might be a better method of overcoming the resistance against self-sustaining expansion. Before I outline some tentative suggestions for consideration of the Conference, I shall have to discuss some specific proposals which have already been submitted.

III. SOME SPECIFIC PROPOSALS

(i) Compensatory finance

26. The International Monetary Fund (IMF) has submitted a critical review of the contention that a shortage of international liquidity exists, and contends that adequate institutional arrangements are available for short-term compensation of fluctuations in export proceeds of the primary producing countries subject to specially high risks, both in respect to the quantity of the harvest and the price.

27. I have dealt with the contention that no shortage of international liquidity exists elsewhere. In this context I would assert categorically that the presumption of such a shortage is overwhelming in a situation where the United States has a very large current balance-of-payments surplus, considerable unemployment, but is nevertheless constrained to pursue a policy of monetary restriction by an outflow of capital, partly due to fears, wholly unjustified, about the power of resistance of the dollar, and partly because of the high remunerativeness of foreign investment due to monopolistic restrictions in foreign capital markets. If sufficient liquidity were available these fears would obviously not arise, and thus a more expansive policy could be followed by the United States. This in turn would invigorate growth elsewhere. Even in the Common Market countries outside of France, there has been a considerable slowing down of progress. I feel that international monetary reform, increasing the potential capacity of creating liquid resources combined with the capacity to increase lending to under-developed areas through the IDA or IBRD is overdue.

28. The International Bank for Reconstruction and Development (IBRD) has emphasized the need for long-term special fund to finance long-term projects in those countries which have not enjoyed adequate development assistance. The Bank has recently reached its best relative value in the last hundred years or so, while in the case of sisal, to quote another example, producers are already apprehensive that the rise will result in the replacement of the product by some new plastic material.

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28. So far as the IMF proposals on compensatory finance are concerned, these are ill-considered and insufficient, and this for two reasons.

29. The first is that the poorer countries have relatively low quotas relative to the risk of a fluctuation in their export proceeds. Inasmuch as poor countries cannot afford payments of the gold tranche, and as the whole allocation of quotas has been based on the contributions to the Fund and not on the need to use the Fund, the machinery is severely deficient as a means of solving this problem.

30. Compensatory finance, in the second place, would only be fully satisfactory if (a) either a recovery of the export proceeds can confidently be expected, and it is merely a question of bridging an outfall known to be temporary, or (b) if the liquid resources provided did not have a short-term repayment obligation.\(^{11}\) This fact, fully taken into account by earlier and far better schemes\(^{12}\) necessitates deflationary policies aimed at an automatic replenishment of reserves.

31. If the IMF constitution permitted open market operations in favour of the deficiency areas—without obligation to repay—this might have the desired effect. As it is, the obligation of repayment between three and five years, without the risk of the outfall in the balance of payments becoming permanent being eliminated by purposive action, would obviously put a very severe pressure on the debtors. In fact, the IMF has always insisted on monetary "discipline" even when only the first tranche of a country's quota (which in fact belongs to the member countries) was drawn on, especially in those cases—mostly of poor primary producers—where this first tranche had not been fully paid in gold. In this way, a deflationary bias is imparted to the international economy outside the Soviet orbit, since the surplus countries are in no way stimulated to expand incomes. Even the timid safeguards embodied in the scarce currency clause have not been utilized to restore a greater balance in the new gold standard mechanism.

32. The IMF report does not touch on the problem of compensating for the long-term trend of deterioration. The IMF would not, of course, accept that such a trend is inevitable.\(^{13}\)

(ii) Export tax

33. It has been suggested that a system of export taxes might provide a solution for the deterioration of the terms of trade of the poor countries.

34. One alternative proposed was a combination of variable export quotas and export taxes to maintain supply at a level which would yield remunerative prices, while the pattern of trade and the geographical distribution of production would not be frozen. This scheme would seem administratively impossible to sustain and it is, like the general export tax, subject to the further objection that primary production is not confined to poor countries but is carried on by a number of highly developed countries which process part (or the whole) of their primary production. Unless, therefore, extremely complicated police measures are taken and these countries enforce the tax, either internally and externally, the scheme might result, in a number of cases, in a shift of production towards some highly developed areas, and an actual worsening of the position in the poor countries.

35. A second simpler alternative provides for a proportional tax on all primary produced exports. This would seem administratively feasible because it is simple. This impression is entirely unfounded. Here again the objections are partly due to the fact that highly developed areas produce primary products which are competitive with the products of the poor areas. Thus export taxes on manufactured goods from these areas would have to be imposed and subsidies would have to be paid on manufactures containing raw materials which are imported into these countries (unless the primary production is subjected to excise, rather than export, taxation). The administrative chaos which would follow would also seem to preclude this suggestion.

36. But even if this objection could be overcome, such a scheme seems ill-conceived. Most primary products, especially raw materials, are under severe pressure because of substitution. The systematic maintenance of high prices itself will stimulate new research, and in a number of cases, e.g., oils and fats, the substitution might take forms which once they happen cannot be reversed, either for technical reasons, e.g., the increase in dairy production, or because of a technical revolution, e.g., cocoa, butter or rubber. Now it would be obviously foolish to assert that a small increase in prices would lead to dramatic changes. Unfortunately the basic technological tendency is in that direction, and any security which the potential producers would get from a stabilization of competing "natural" products is bound to accentuate it.

37. Nor is this argument confined to its effects on substitution. A general export tax scheme is not unlikely to stimulate production because of the anticipation that prices which would henceforth be maintained to the producer. Production is held back not so much by low prices acting on a "normal", fixed, schedule of rising production costs as by: (a) lack of knowledge of modern technical advances which could easily multiply production\(^{14}\) (b) uncertainty about the future of markets. With stabilization schemes, involving export taxes, the latter disappears, and intense incentive is given to overcome the former. The schemes put forward vastly overestimate the elasticity of supply with respect to price, of primary products. If, on the other hand, the producer is disappointed prices do not rise upon imposition of the export tax and has to pay part of the tax, this may not symmetrically result in a fall but in an increase in production. As we have seen\(^{15}\) cash-

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\(^{11}\) Even a long-term obligation might prove onerous from this point of view.

\(^{12}\) For instance, the United Nations experts 1949.

\(^{13}\) And it is quite conceivable that a change in the Soviet orbit foreign trade policy will radically change the trend.

\(^{14}\) In cocoa, for instance, yields of 2,000 lb per hectare are known to be possible in commercial quantities as against a national average of less than 200 lb.

\(^{15}\) See above, paras. 14-17.
crops represent the best alternative both for serf-peasants and for tribal or feudal landlords. The "normal" protestant North Atlantic reactions to price changes are hardly likely under these circumstances. "Backward rising" supply curves have been found to be much more usual. In any case production is not carried on in “static” conditions with unchanged resources, including technical knowledge. Technical knowledge is available to multiply production. Thus the “Prebisch effect” is unlikely to yield to wand-waving. I would certainly not dare to put forward how anyone can be sure of it.

324. waving. I would certainly not dare to put forward the "Prebisch effect" is unlikely to yield to wand-waving. I would certainly not dare to put forward how anyone can be sure of it.

38. It is highly likely that poor Governments which obtained revenue from an export tax would, if production controls and export quotas were not imposed, try to stimulate production in indirect ways, e.g., supplying cheap fertilizers and spraying materials, providing education and extension services, etc. Inasmuch as a revolutionary change in production possibilities is taking place in most of the areas concerned, this may lead to a completely unacceptable explosion in production. On the other hand a policy of direct restriction will:

(i) internally perpetuate privilege because the production of the cash crops would in any event be very much more lucrative than any alternative productive activity and it will be made even more lucrative by the restriction scheme;

(ii) internationally work against the more dynamic countries. These will increasingly be driven to try to break out and the scheme will thus be undermined. Thus a restriction scheme based on export taxes is unlikely to work; one based on physical controls is unlikely to work in a socially and internationally tolerable fashion.

39. There is a further and grave objection. If the benefits and burdens derived from the export tax and resulting from the increases in price of the commodities respectively are counted into total aid given and received, it is difficult to conceive that this will not represent a rather clumsy and unjust way of redistributing aid. A unilateral move of this type, moreover, might well arouse hostility; and if this led to a cut in other forms of aid, and if the poorest areas—which are precisely those which do not export much—did not receive any compensation, the proposal is likely to be positively mischievous.

(iii) Liberalization

40. It has been suggested that a general liberalization of trade might help the poorer countries, especially if it is made unilaterally, i.e., if the poor primary producers are not required to make any counter concessions. This proposal leaves out of account the extremely variegated situation in the so-called rich countries. If it were to be accompanied by a series of devaluations, liberalization would lose its effectiveness on imports, though it might still be of no disadvantage to the poor areas because it might—at least temporarily—reduce the price of manufactures in terms of primary produce.

41. No rich country—and the richer it is the less inclined it will be—can be expected to tolerate unemployment caused by a general measure of liberalization. This has been shown by the escape clauses in the commercial treaties negotiated by the United States of America, which permit emergency restrictions on imports detrimental to American industry and also in the efforts on the part of Britain to limit imports, even from politically favoured countries. It would seem foolish to expect that unemployment will be tolerated, especially if liberalization is general and if there are no specific sentimental reasons (e.g., the ideal of Commonwealth solidarity) for sustaining the sacrifice incurred by the richer countries.

42. On the other hand, if a liberalization combined with devaluation leads to severe currency crises, it is probable that the end effect will be deflationary as each country tries to readjust its balance of payments by retrenchment. It is not altogether surprising that the change in the western world towards liberalization and reliance on monetary control was contemporaneous with the worsening of the terms of trade of the poor countries. The effect of liberalization in fact was to restrict demand and slow down growth. This must have had at least as much influence on the problem of the poor primary exporters as the increase in production currently with the fall in prices due to the socio-economic structure of agriculture, already discussed.

(iv) Non-discrimination

43. It has been suggested that the newly-found independent status of the erstwhile colonial areas, as well as those countries which were independent already before the war but were in a sort of client relationship with some fully-developed area, which among themselves provide the bulk of the primary production would not be compatible with bilateral agreements. In this way, it is contended, a neo-colonial relationship would be perpetuated and grave harm done.

44. In point of fact all effective concessions in favour of under-developed areas, especially in the field of manufactures, have been made bilaterally. This is true of all industrialization projects by the Soviet Union which are based on credit plus repayment by bilateral purchase agreements. In the same way, British concessions to Hong Kong and India were strictly limited and on a bilateral basis. The Americans have given concessions to Japan on certain manufactures on the same basis.

45. It is not possible to sustain the contention that general multilateral free trade or a drastic all-round lowering of tariffs are more feasible or likely than limited, reciprocal and co-ordinated commercial concessions. In the same way it seems very unlikely that developed countries will make far-reaching...
concessions to each other without first making sure that the consequences will be limited.

46. Objections were especially sharp against the Association Agreements of the Common Market with certain African countries. These provide for large-scale aid on the basis of a Customs Union with the under-developed areas having the right to impose protective measures unilaterally to stimulate industrial or other development. This arrangement would be favourable to the latter except for the doubt whether or not the African countries have the right to give each other greater preferential concessions than they give to the fully developed members of EEC.

47. It is probable that a complete customs union between them, associated to Europe as a unit, would not be excluded under EEC Treaties. Unfortunately, the countries of Africa show great differences in income and productive capacity between each other. A complete customs union between them would not be possible until a purposive regional planning of investment and partial tariff concessions, as well as migration, ranging over a long period of years have equalized opportunities. Such preferential arrangements, however, would bring them up against GATT and IMF rules. If, as a result of a failure to grant them the right to such discriminatory practices, the poor countries are forced to grant non-discriminatory rights all round, it is probable that national protectionism will be forced on them, in which case the Association Agreement would represent a deadly danger, as they would be unable to form economically effective markets which could be industrialized with any hope of being able to sustain high living standards.

IV. THE ELEMENTS OF A SOLUTION

(i) The demand side

48. It would seem foolish to expect that advanced countries will permit an increase in the exports of primary producers, especially of commodities and manufactures competitive with their own industry, so long as they suffer to any appreciable extent from unemployment. This means that the problem of the wage inflationary trend will have to be tackled. So long as wage and price increases terrify authorities in the fully developed part of the world, a balanced approach to the problem of helping the poorer areas through increased trade cannot be solved and suitable economic growth at a reasonable rate will not be attained. This implies a fundamental change in internal policy in industrial areas. ¹⁸

49. Once this problem has been solved, international monetary reform to provide for increased liquidity, and at least for the arrangement of international open market operations, at any rate within the limits set of 50 per cent of the Fund's quotas, might be attempted as a first step towards establishing an effective central banking mechanism. One of the most important requirements would be, within this reform, to provide for a penalization of persistent creditors. This was initially contemplated by Keynes, but unfortunately dropped out of sight by the time of the Bretton Woods Conference, and the practice after 1956 was quite openly discriminatory against the debtors. One of the possible solutions would be to provide for a compulsory lending on a long-term basis of the increases in liquid reserves beyond a certain point, or beyond a certain time, by the creditor to the International Bank. Another possibility would be to put the scarce currency clauses of the Bretton Woods Agreement into effect.

(ii) The supply side

50. The Prebisch thesis on the unequal distribution of the yields from increases in productivity from manufacturing and primary producing countries rests as we have seen on the sociological framework in primary producing countries. Both under feudal latifundial and minifundial peasant communities, the opportunity cost of producing cash crops is very small. In other words, there is no profitable alternative crop. Hence production does not adjust itself to falls in prices in the same way as it would in manufacturing. Even in rather rich primary producing areas we find that falls in price are answered by increases in productivity and effort.

51. If this analysis of the unequal incidence of gains is correct, only far-reaching industrialization will enable countries to free themselves from the grip of poverty.

52. One of the most essential further tasks is the elimination of unnecessary middlemen and restoration of the direct relationship between the peasant and the market. The first requirement of this is to establish marketing boards which cut out seasonal fluctuations. This will also enable rural credit to be organized and the peasant to be freed from usury.

53. Given the technical revolution going on in applied biology, it would seem rash to give subsidies through guaranteed prices rather than through reorganization of production and technical aid.

(iii) Planning for progress

54. Much the most important task is to maximize the aid given to the poorer areas and to take measures to ensure, as much as possible, its optimal use. It is to be hoped that a portion, growing with national income per head, of the resources of the rich will be devoted to aid.

55. So far as the first problem is concerned, it seems that tied loans or even loans in kind must not be ruled out, because they obviously increase the total resources which can be put at the disposal of the poor areas, given the precarious balance-of-payment position in which “rich” countries often find themselves. The alternative to a tied loan or a loan in kind is not an untied freely convertible loan or grant, but a reduction of the total so as to take care of the possible repercussions of the grant on the balance of payments of the donor country. Only a completely satisfactory and purposive international monetary and investment control reform could possibly produce a situation in which the tying of loans would not increase the amount of resources made available by the “rich”

¹⁸ I have discussed the problems involved in my paper “Planning in Progress”, Fabian Society, 1963.
to the "poor". The present drift towards the commercialization of aid, very reminiscent of the bankers' orgy of the 1923-1929 period, is already beginning to produce a situation of over-borrowing. It would seem to be essential that aid should take as much as possible the form of grants or soft loans: the latter perhaps might be preferable because it seems easier to attach conditions to loans than to grants, and thus increase the effectiveness of aid.

56. So far as the second problem is concerned, it would be necessary to create regional planning machinery, and ensure that both bilateral and multilateral aid is channelled on the basis of the regional plans elaborated. Apart from certain very welcome exceptions, such as the East African Common Market, where some regional machinery exists, this does not seem to be feasible, except through the reorganization of the international and bilateral agencies dealing with aid, so as to enable a steady bias in favour of effective multilateral regional solutions.

57. In order that such regional planning should become a reality it is absolutely essential that the aid programmes would be worked out on the basis of Regional Resource Surveys and made conditional on an agreed plan in the region being adhered to by all participants.

58. It stands to reason that if common markets could be established in larger regions in the poor under-developed parts of the world, a basis would be created for the establishment of industries which are viable in the sense that they can provide employment and income, and hence fare favourably with those in more developed parts of the world.

59. There are grave difficulties in the way of establishing such common markets in the short run. The under-developed countries themselves show starting discrepancies in resource endowment and capital equipment. A freeing of trade without due safeguards and planning would, within that orbit, have the same consequence of concentrating development into the more prosperous sub-regions as it would internationally in the relations of the rich countries to the poor (see paragraph 47 above).

60. It would therefore be necessary to give great latitude to these countries in determining conditions and periods during which they would not have to adhere to the rule of non-discrimination. They should be permitted, e.g., the establishment of multi-tier preferential arrangements so as to equalize opportunities between themselves while protecting all from outside competition. This should in the first instance comprise new industries, which might be located on a balanced basis in the participating countries. If some of the sub-regional areas are unfit to support any industry (e.g., parts of the Sudanese belt in West Africa) they would have to be compensated by preferential treatment, by the more "advanced" countries, of their primary exports (e.g., meat and fish in West Africa) because they would have to buy in a "dearer" market goods which they formerly imported from rich (Metropolitan) countries. Analogous treatment of the extension of existing industries would hasten industrial development. In the end migration from the least favoured areas of Africa, Asia and South America is the only solution compatible with higher living standards. This however demands that the artificial political barriers due to the colonial history of the area should be eliminated.

61. It would be optimistic to expect that the process of integration could be begun on a political basis. In a number of areas of the world, the earlier history would prevent such rapid progress towards unification. Indeed, the rather significant gains which can be expected from the economic union would represent a valuable stimulus to political integration.

62. The machinery, especially the planning machinery, which would be needed and which would be stimulated by the aid furnished on a regional basis—especially the expansion of common education for regional purposes and also the provision of technical administration in such fields as agriculture, industry and economic planning, etc.—might also lessen the centrifugal forces and develop a sense of solidarity. It should be remembered that it is the common educational system which has been holding the Indian subcontinent together, despite racial and linguistic differences.

(iv) Reform of the aid agencies

63. One of the most important reforms which has to be undertaken is in the structure of the various international agencies, both bilateral and multilateral.

64. The second step is to decentralize a great deal of the analysis and programming work from headquarters to sub-regional planning offices. The present four regions having Economic Commissions, Asia, Latin America, Africa and Europe are far too large and complex to enable effective planning.

65-66. On the other hand, the field work which at present is carried almost exclusively on the national level would have to be centralized from country to regional level at any rate until national plans corresponding to regional requirements have been elaborated and agreed to. Even then it would seem essential that a flexible reconsideration of the national plans should take place periodically on a regional basis.

67. In this context, I would like to emphasize the absolute necessity to ensure that resident representatives of the Technical Assistance Board should be either trained economists or should receive adequate economic training for their job in a special institution attached to the regional offices. If they are to do a decent job and not merely act as post-offices, which is frustrating and exceedingly damaging to morale and efficiency and also to inter-agency relationships, they must perform a positive planning job and be able to represent effectively, and with authority, the regional offices to which they are attached.

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19 See Development through Food (A strategy for surplus utilization) FAO, Freedom from Hunger Campaign, Basic Study No. 2.
20 I have dealt with the problem in greater detail in a memorandum to the Director-General of FAO, published subsequently in "Public Administration", 1959.
21 Except for such multi-national projects as the FAO African Development Programme.
22 "Strategy and Tactics", op. cit.
68. International monetary reforms should, in the main, be concentrated on the solving of the liquidity problem of the fully developed areas and so enable them to maintain high rates of growth. This is more likely to contribute to the solution of the problems of the poor areas than any other measure.

69. It has to be recognized, however, that a number of countries will find it difficult to achieve full employment without export surpluses. From this point of view, therefore, it would seem to be essential to obtain some resources for underdeveloped countries by enabling these countries to continue to have export surpluses. This could be achieved by the International Monetary Fund purchasing International Bank obligations to be re-lent to developing countries, or the surplus countries directly lending to the International Bank for the same purpose. But it must be remembered that international loans will remain solvent only so long as a sufficient amount of grant aid flows to the underdeveloped countries.

70. The GATT rules imply equality of opportunity between countries. In the absence of such equality they discriminate against the weaker partner. It has been suggested that there should be a general waiving of the reciprocity rules on the part of the developed countries in their liberalization drive so far as underdeveloped countries are concerned.

71. This paper has shown that a general non-discriminatory liberalization, even if unilateral, is insufficient so long as the underdeveloped areas are not grouped into units which can potentially support optimal industrial units. The problem can only be dealt with by providing a waiver of the non-discrimination rules provided the exceptions are notified to GATT or an international trade organization, and if the discriminatory arrangement permits an increase in the trade of an underdeveloped country. It would be especially important to plan the establishment of new industries so as to be able to make sure of the feasibility of adopting modern productive techniques (adapted to the needs of the combined area) through mass-production. This means that so far as these new industries are concerned free and almost free trade should be permitted. The extension of older industries might be undertaken in a balanced way on the basis of tariff preferences so as to compensate the relatively weaker areas in the underdeveloped region for the advantage they grant to the relatively stronger countries. In the end the establishment of a common market with sufficiently strong control organs capable of purposive planning seems the logical solution. The same waiver should apply to the relationship of the underdeveloped countries to one another. If this were done the present hindrances to common planning of economic development by underdeveloped countries would be mitigated. One might provide that, when development reaches a certain predetermined level, somewhat stricter rules could be applied and at any rate aggrieved parties outside the area should have the right to demand compensation or alternative concessions.

V. Tentative conclusions

72. So long as the rules of international trade and international payments are based on a theory which itself is derived from the fiction of equal partnership between small and large, poor and rich, sluggish and dynamic, any endeavour to overcome the inequality in income distribution will be frustrated. No magic formula or economic gadget or policy trick exists which would deal with the worsening of the relations of the rich and the poor countries without fundamental long-term aid and development planning.

73. As I see it the most urgent tasks of the Conference are:

(i) the obtaining of pledges of aid increasing with the national income of the more prosperous countries;

(ii) the suspension of the rules of non-discrimination in relation to poor non-industrial countries among themselves and unilaterally in those to fully developed areas;

(iii) solution of the problem of international liquidity;

(iv) reorganization of the international agencies dealing with aid and the establishment of effective regional planning to channel aid and ensure, through reforms, its effective use.

INFORMATION ON ECONOMIC CO-OPERATION BETWEEN THE COUNTRIES OF THE COUNCIL FOR MUTUAL ECONOMIC ASSISTANCE*

The establishment in 1949 of the Council for Mutual Economic Assistance (CMEA) was an important milestone in the development of economic relations between the socialist countries. It marked the beginning of broad co-operation between the States belonging to the Council—first in trade and later in production as well.

The purpose of the Council is to unite and coordinate the efforts of its member countries with a view to promoting the planned development of their economies, accelerating their economic and technological progress, raising the level of industrialization of the industrially less developed countries so that they can gradually overcome the historic differences in their levels of economic development, and ensuring a steady rise in their labour productivity and in the standard of living of their peoples.

With a view to achieving the aims defined in its Charter, the Council for Mutual Economic Assistance promotes broad economic, scientific and technical co-operation between its members and seeks to perfect the international socialist division of labour by co-ordinating its members' economic development plans and promoting specialization and co-operation in their production; and it helps member countries to formulate and carry out joint measures aimed at the development of their industry, agriculture, transport and trade, the most effective possible utilization of basic capital investment in the development of their extractive and manufacturing industries, and the exchange of information on their scientific and technological progress and advanced production experience.

At the same time, the activities of the Council—an open economic organization whose member countries are not protected by a uniform tariff barrier and do not pursue discriminatory foreign trade policies directed against other countries—are aimed at promoting constantly expanding economic relations between its members and all States desiring to develop such relations.

The Council for Mutual Economic Assistance is founded on the principle of the equality of all member countries. Economic, scientific and technical co-operation between its members is carried out on a basis of complete equality, respect for the sovereignty and national interests of the countries concerned, mutual benefit and comradely mutual assistance, and contributes to the achievement of the purposes proclaimed in the United Nations Charter.

The steady expansion and intensification of broad economic, scientific and technical co-operation between the CMEA countries has been a major factor in their rapid economic development and in the resultant improvement of their people's living standards.

Taking 1950 as the base year, the level of industrial production in 1962 showed a rise of 390 per cent in Bulgaria, 220 per cent in Czechoslovakia, 230 per cent in the German Democratic Republic, 220 per cent in Hungary, 340 per cent in Mongolia, 300 per cent in Poland, 350 per cent in Romania, and 260 per cent in the Soviet Union.

The consistent implementation of the policy of socialist industrialization and expanded economic co-operation in every sphere has brought about radical changes in the economic structure of the CMEA countries. Those of them which before the Second World War were backward agricultural countries have been transformed into advanced countries with economies based on both industry and agriculture.

Industry now accounts for more than 60 per cent of the net industrial and agricultural product in Bulgaria, 86 per cent in Czechoslovakia, 88 per cent in the German Democratic Republic, 76 per cent in Hungary, 32 per cent in Mongolia, 72 per cent in Poland, 63 per cent in Romania, and 72 per cent in the Soviet Union. The power, metallurgical engineering and chemical industries have been among those which have developed most rapidly.

In 1962, electric power output in the CMEA countries totalled more than 500,000 million kilowatt-hours (twice the 1955 figure), oil output 200 million tons (2.4 times), gas output 109,000 million cubic metres (3.7 times), steel output 100 million tons (1.7 times), and cement output 83 million tons (2.3 times). The engineering and metal-working industries are developing at a rapid rate; in 1962 their gross output exceeded the 1955 figures by 300 per cent in Bulgaria, 130 per cent in Czechoslovakia, 110 per cent in the German Democratic Republic and Hungary, 180 per cent in Poland, 210 per cent in Romania, and 160 per cent in the Soviet Union.

This expansion of heavy industry has been accompanied by an increase in consumer goods production. Over the period 1956-1962, consumer goods production increased by 133 per cent in Bulgaria, 77 per cent in Czechoslovakia, 74 per cent in the German Democratic Republic, 173 per cent in Mongolia, 67 per cent in Poland (up to 1961), 84 per cent in Romania and 70 per cent in the Soviet Union.

The CMEA countries have also achieved gains in agriculture. Over the period 1958-1962, the average annual output of cereals and leguminous vegetables of developed countries and/or preferential trading arrangements* (item V.1 of the list of main topics). See Interim Report of the Preparatory Committee (first session), in Vol. VIII of this series.

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* This paper was submitted by the Council for Mutual Economic Assistance in connexion with the sub-item on "Implications for trade and development of developing countries of economic group-ings of developed countries and/or preferential trading arrangements"
was 185 million tons—a rise of more than 50 per cent over the 1950-1954 figure—and wheat output 83 million tons, a rise of 70 per cent. Between 1950 and 1962, the total head of cattle increased by more than 40 per cent and that of sheep by about 54 per cent, and the pig population more than doubled.

The material and cultural standard of living of the CMEA countries is steadily rising, a trend reflected in particular in their rising national income. In 1961, Bulgaria’s national income showed an increase of 190 per cent over 1950, and in 1962 national income showed an increase as compared with 1950 of 120 per cent in Czechoslovakia, 150 per cent in the German Democratic Republic, 110 per cent in Hungary, 130 per cent in Poland, 210 per cent in Romania and 200 per cent in the Soviet Union.

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Until 1962, the Council for Mutual Economic Assistance was a regional organization of European countries. In June 1962, in order to prepare the way for expanding economic cooperation within the framework of the Council, the latter approved at its sixteenth session amendments to its Charter making membership available to non-European countries as well, and admitted the Mongolian People’s Republic to the organization.

At the present time, the Council’s work is being carried on with the participation of the People’s Republic of Bulgaria, the Czechoslovak Socialist Republic, the German Democratic Republic, the Hungarian People’s Republic, the Mongolian People’s Republic, the Polish People’s Republic, the Romanian People’s Republic and the Soviet Union.

Membership in the Council is open to any other countries which subscribe to its purposes and principles and declare that they agree to accept the obligations contained in its Charter. Any member of the Council can freely leave it by notifying the depositary of its Charter to that effect.

Countries not members of the Council may take part in the work of its organs at the Council’s invitation, on conditions determined by the Council in agreement with the countries concerned. At the present time, representatives of the People’s Republic of China, the Republic of Cuba, the Democratic People’s Republic of Korea and the Democratic Republic of Viet-Nam are taking part in the work of Council organs in matters of interest to them.

The Council may establish and maintain relations with the economic organizations of the United Nations and with other international organizations. At the present time, its secretariat maintains contacts with the secretariat of the United Nations Economic Commission for Europe.

The Council’s organs adopt and communicate to member countries recommendations on questions of economic and scientific-technical co-operation, and adopt decisions on organizational and procedural questions. Members of the Council implement these recommendations through decisions of their Governments or other competent authorities, in conformity with their national laws. Recommendations and decisions do not apply to countries which state that they have no interest in the question at issue.

The principle of the sovereign equality of member countries is applied by granting the latter equal representation in all Council organs, by making the adoption of all Council recommendations and decisions subject to the agreement of interested member countries (any country being entitled to state that it has no interest in a particular question under consideration by the Council), and by the equal rights granted to all member countries in the Council’s Charter.

The Session of the Council, which consists of delegations from all member countries, is the highest organ of the Council of Mutual Economic Assistance.

The Council’s principal executive organ is its Executive Committee, in which all member countries are represented at the level of deputy heads of Government.

The Executive Committee directs all activities relating to the implementation of decisions adopted at sessions of the Council.

The Executive Committee has an Office on Joint Problems of Economic Planning, in which each member country is represented by the deputy chairman of its State-planning body. The main function of the Office is to prepare proposals for co-ordinating member countries’ economic development plans and to give direct assistance in promoting broad cooperation between their respective planning bodies on specified matters.

For the purpose of fostering the development of economic relations between the Council’s members and organizing broad economic, scientific and technical co-operation in the various sectors of their economies (e.g., engineering, ferrous and non-ferrous metallurgy, chemical industry, construction, transport and foreign trade), the Session of the Council has established Standing Commissions in which every member country is represented, generally by persons of ministerial rank.

The Council for Mutual Economic Assistance has a secretariat, which acts as its economic and administrative organ. The secretariat staff is recruited from among citizens of the Council’s member countries. The secretariat assists in the preparation and conduct of meetings of Council organs, prepares or assists in the preparation of documentation for such meetings, and prepares proposals on various aspects of the Council’s work for consideration in the appropriate organs of the Council.

In order to ensure the fulfilment of the Council’s tasks, the CMEA countries have concluded a Convention concerning the juridical personality, privileges and immunities of the Council for Mutual Economic Assistance, which ensures the unhindered and independent performance by the Council and its officers of the functions assigned to them by the Council’s Charter.

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Economic, scientific and technical co-operation between the countries of the Council for Mutual
Economic Assistance has developed and improved with the expansion of their economies and the initiation by the European people's democracies of long-range economic planning.

During the first years of the Council's existence, economic co-operation between member countries was largely confined to foreign trade. Subsequently, it has increasingly extended into production, where it has found expression in efforts to co-ordinate national economic plans, to encourage specialization and co-operation in production and to promote co-operation in the construction of projects of economic importance, the exploitation of natural resources, etc.

In 1956, in connexion with the preparation of their economic development plans for the period 1956-1960, the CMEA countries undertook a joint study of various economic problems and then co-ordinated their development plans for interrelated economic sectors for the period 1961-1965.

By taking a series of co-ordinated economic, scientific and technical measures, member countries were able to solve a number of major economic problems. Substantial gains were made in supplying their economies with fuel, electric power and the most important types of raw and other materials. The Soviet Union devised methods of increasing coal and coke deliveries to several of the people's democracies. The German Democratic Republic and Czechoslovakia joined with Poland in a co-operative effort to develop the latter's coal industry with a view to satisfying their own coal and electric power requirements more fully. By combining their efforts, the CMEA countries have achieved successes in geological surveying and the discovery of new mineral reserves. Thus, iron ore and oil and gas deposits have been discovered in Bulgaria, oil and gas deposits in the German Democratic Republic, and large copper deposits in Poland.

In order to help the European people's democracies to develop their oil-refining and chemical industry in accordance with CMEA's recommendations, the Soviet Union is substantially increasing its deliveries of oil to countries lacking adequate oil resources of their own. For the transport of this oil from the Soviet Union (middle-Volga region) to Czechoslovakia, the German Democratic Republic, Hungary and Poland, those countries are co-operating in the construction of the 4,500-kilometre "Friendship" oil pipeline. The Czechoslovak and Hungarian sections of the pipeline have gone into operation ahead of schedule.

Of vital importance to the economic development of the CMEA countries is the unification of their power systems being carried out on the Council's recommendation. The power systems of Czechoslovakia, the German Democratic Republic, Hungary, Poland and the western Ukrainian section of the Soviet Union have already been amalgamated, and those of Bulgaria and Romania are soon to be brought in.

In order to co-ordinate the operations of the State controller's offices of the countries concerned, a central control office for the combined power systems handling parallel operations of the systems has been set up in Prague and is already operating.

The amalgamation of their power systems is very important for the economies of the CMEA countries. It enables them to co-ordinate their reserve capacities and thus to reduce the reserve capacity of their national systems. It also enables countries to assist each other in the event of breakdowns and during peak load periods, and facilitates the supply of electric power under agreements concluded between the countries concerned.

Hungary, for example, will get from the USSR power equivalent to the output of a power station which would have cost Hungary about 2,000 million forints.

The CMEA countries' savings from the amalgamation of their power systems are considerably greater than the cost of putting up connecting lines.

The Danubian members of CMEA are collaborating in the multi-purpose exploitation of the Danube waters. Agreements providing for the co-operative construction and operation of power stations have been concluded between Bulgaria and Romania and between Hungary and Czechoslovakia.

With a view to the more efficient use of rolling stock and to ensuring the transport of the constantly growing foreign trade consignments, the members of CMEA have agreed to set up a common goods waggons pool, which will help to reduce idle mileage and will bring the economies of the countries concerned substantial advantages.

In order to improve supplies of raw and other materials, the CMEA countries are assisting each other in developing the corresponding branches of industry. For example, there are co-operative arrangements between Czechoslovakia and Poland for developing the mining and processing of copper ores and sulphur, between Czechoslovakia and Bulgaria for developing the copper mining industry, between the USSR and Hungary in the aluminium industry, between the German Democratic Republic and Poland in developing brown coal mining, between the USSR and Czechoslovakia in developing ferrous and non-ferrous metallurgy, and between Poland and the USSR in the production of potash fertilizers.

In Romania a combine has been established with the assistance of the German Democratic Republic, Poland and Czechoslovakia for the production of cellulose from rushes.

In pursuance of the policy of full co-operation and fraternal aid between members of CMEA, joint measures are being carried out, under recommendations of the Council organs, to develop the economies of the economically less developed members as rapidly as possible. Plans have been made to step up geological survey work in the Mongolian People's Republic and to organize the work on a joint basis so that mineral reserves may be found quickly and put to rational use. There are also plans to help Mongolia in developing its industrial and agricultural production and strengthening its scientific research institutions.

Scientific and technical co-operation between the members of CMEA grows in all fields with every year. Members exchange scientific and technical documents and the latest industrial "know-how". 
This helps them to raise their general technical level and to develop their economies, enabling them to economize on material, manpower and financial resources, to improve their stocks of machinery and equipment, to introduce advanced industrial technology and the integrated mechanization and automation of industrial processes rapidly, to master the production of new types of goods in the shortest possible time and to improve the quality of output.

In accordance with a recommendation made by the second Session of the Council (1949), the CMEA countries grant one another licences for the production of goods, and exchange technical documents (plans, working drawings, descriptions of technological processes and so on) free of charge; payment is required only for the cost of making copies. Since the establishment of the Council, such exchanges of documents have brought its members great savings.

More than 38,000 sets of scientific and technical documents were exchanged by the members of CMEA in the period 1960-1962 alone. Thirty thousand workers from different branches of the economy visited other countries on an exchange basis during this period in order to study industrial methods and to increase their skills. Over the period 1960-1962, 700 scientific research, planning and design organizations of member States co-operated in solving approximately 5,500 important scientific, technical and theoretical problems.

The relations of genuine friendship, equality and co-operation existing between the CMEA countries are clearly reflected also in the international socialist division of labour achieved through the development of such progressive methods as specialization and co-operative organization of production.

As is stated in the “Basic principles of the international socialist division of labour” adopted at the fifteenth session of CMEA, the purpose of the international socialist division of labour is to increase the efficiency of social production, to help achieve high rates of growth in economic development and in the standard of living of workers in all socialist countries, to promote industrialization and to help gradually overcome the historically determined differences in the levels of economic development of the different countries.

The reason for the system of international specialization in production applied by the members of CMEA is that it offers equal advantage to all countries, both large and small. It permits the construction of large-scale, highly-profitable and technically up-to-date enterprises and creates favourable conditions for industrialization.

Industrial specialization as between the members of CMEA is accompanied by efforts to achieve the optimum economic structure for each country. Specialization is applied most particularly in mechanical engineering, ferrous and non-ferrous metallurgy and the chemical industry.

In machine-building, international specialization is generally speaking applied to the chief categories of machine-building output, and to assembly lines and units, equipment for complete enterprises and different types and sizes of machinery, equipment and tools. For example, CMEA organs have recently adopted recommendations, now being carried out by member countries, on specialization in the production of advanced types of metal-cutting lathes, forge and press equipment, wagons, complete sugar refineries, tractors, self-propelled chassis, the most important types of agricultural machinery, roller bearings and other types of machinery and equipment.

The application of specialization to the machine-building industry of each country is carried out particularly in so far as it concerns the production of technological equipment, with due regard to the existing industrial structure of the economy and the progressive changes the latter is to undergo according to plan.

Thus, the production of oil extraction equipment is being developed mainly in Romania and the USSR, that of oil refining equipment in Romania, the USSR and Czechoslovakia, that of small-section rolling mills in the German Democratic Republic and Poland, that of large-section rolling mills mostly in the USSR and Czechoslovakia, that of wire-drawing mills mainly in Hungary and the German Democratic Republic, that of cement factory equipment in the German Democratic Republic, Poland and the USSR, and to some extent in Czechoslovakia and Romania, that of paper industry equipment in the German Democratic Republic, Poland and Czechoslovakia, that of electric arc furnaces mostly in Poland and the USSR, that of multi-scoop chain and rotor excavators mainly in the German Democratic Republic, Czechoslovakia and the USSR and that of single-scoop excavators in Czechoslovakia and the USSR. Bulgaria is developing its production of electric cars, electric telfers, agricultural machinery, etc., while Hungary is developing its production of electrical engineering equipment, omnibuses and food industry equipment.

In ferrous metallurgy, the production of various kinds of rolled ferrous metal and tubing is being placed on a specialized basis. In order to improve the use of existing rolling capacity, member countries exchange supplies and different kinds of rolled metal and tubing, and are expanding exchanges of experience in organizing the production of economical sizes of rolled metal, introducing rolled metal sections of narrower tolerances into production and so on.

Great importance for the further development of co-operation between the members of CMEA attaches to the decisions taken at the sixteenth session of the Council, held in 1962. The Council decided that its main field of activity should be the co-ordination of the national economic plans of member States. This will permit the optimum use of their resources, with a view to ensuring the most rapid possible development of their economies and gradually reducing differences in their respective levels of economic development while accelerating the economic growth of all members.

The purpose of plan co-ordination is to ensure that the objectively necessary proportions for the economic development of each country and of member countries as a whole are correctly determined, that the international socialist division of labour reaches a high level of economic efficiency, reflected in rapid growth
rates and in the fullest possible satisfaction of the needs of the population of each country at the minimum cost in terms of social labour, and that international specialization in production goes hand in hand with the integrated, all-round development of the economies of individual member countries, so as to achieve the fullest and most rational use of the natural and economic factors of production, including labour resources, in all CMEA countries.

Pursuant to the decisions taken by the eighteenth Session of the Council (1963), member States and Council organs have begun the co-ordination of plans for 1966-1970. Attention is being concentrated on international specialization and co-operation in the organization of production, on satisfying the growing fuel, power and raw material requirements of member countries and on developing the chemical, machine-building and electronics industries and the other most advanced branches of the economy.

Thanks to the constant growth in their industrial and agricultural output and the increasingly advanced international socialist division of labour between them, the foreign trade of members of CMEA is achieving high rates of growth.

Over the period 1955-1962, the total foreign trade of the CMEA countries rose from 14,100 to 28,600 million roubles, or more than doubled. Trade among member countries rose over the same period from 8,600 to 18,500 million roubles, the annual rate of growth between 1959 and 1962 reaching 14 per cent as against 8.5 per cent for the period 1956 to 1958.

Over the same period, the trade of CMEA countries with other socialist countries not members of CMEA rose from 1,900 to 2,200 million roubles.

The most rapid rate of growth of foreign trade of the CMEA countries is being recorded by the German Democratic Republic, whose volume of trade rose from 800 million roubles in 1950 to 4,200 million in 1962. The German Democratic Republic is now the second largest trading country in CMEA.

As a result of the increasingly effective international socialist division of labour, countries which were formerly economically backward have established and are successfully developing machine-building industries, with consequent changes in the structure of their exports.

The proportion of Bulgaria’s exports to other CMEA members accounted for by machinery and equipment rose from 2.8 per cent in 1955 to 22.5 per cent in 1962, the corresponding increase for Hungary being 37.6 per cent to 44.3 per cent, for Poland 17.4 per cent to 41.4 per cent and for Romania 6.1 per cent to 23.8 per cent. Over the same period Bulgaria’s deliveries of machinery and equipment rose in volume by a factor of more than 23, Romania’s too by a factor of more than 6 and Poland’s by a factor of 4.3, whereas before the war these countries imported almost all the machinery and equipment they needed. The total volume of machinery that members exported by the CMEA countries to each other was 130 per cent higher in 1962 than in 1955.

Trade between the CMEA countries is based on long-term agreements covering a plan period which is identical for all of them. On the basis of the work done in co-ordinating plans for the development of interrelated branches of the economy for the period 1961-1965, the members of CMEA, in accordance with a recommendation made by the twelfth session of the Council (1959), have concluded bilateral long-term trade agreements for that period.

These agreements provide for a broad programme of imports and exports of machinery and equipment, fuel, raw and other materials and food and other consumer goods. They ensure that members of CMEA are guaranteed the imports they need and a stable market for their output, helping them to achieve further economic development and to raise the standard of living of their people.

The implementation of the CMEA countries’ economic plans is creating additional possibilities for the further expansion of trade. The sixteenth session of the Council (1962) accordingly recommended member countries to conclude long-term trade agreements providing for a further increase in goods deliveries over the period 1962-1965. Such protocols have already been concluded by various CMEA members. On the basis of the further increase in consignments provided for in these protocols, trade between CMEA members is expected to be 150 per cent greater in 1965 than in 1955.

With the constant and steady increase in trade between CMEA members and the corresponding increase in the number of contracts between their foreign trade organizations, it has become urgently necessary to arrive at agreement on certain organizational and technical trade questions, with a view to the maximum possible simplification of the contractual process by means of the standardization of frequently recurring conditions which do not conflict with existing legislation in the various countries or with established trade practice.

With these ends in view, general conditions to govern goods deliveries between the foreign trade organizations of the countries members of CMEA (“General conditions for deliveries, 1958”) were drawn up by the CMEA Standing Commission on Foreign Trade and entered into force in 1958.

These “general conditions for deliveries” regulate a whole complex of questions arising in the process of concluding and carrying out foreign trade agreements (contracts); e.g., questions connected with the procedure for concluding contracts, delivery dates, quality control, packaging and labelling, technical documentation, unloading instructions and delivery notices, payment procedure, circumstances releasing parties from liability, procedure for the submission and examination of claims, penalties, procedure for the arbitration of disputes, and a number of other matters.

Because of the constantly growing trade in machine-building products among the CMEA countries, general conditions relating to assembly and installation work and other types of technical services connected with the trade in machinery and equipment (“General conditions for CMEA assembly work, 1962”) were
drawn up by the Standing Commission on Foreign Trade and entered into force in June 1962, and general conditions for the technical servicing of machinery and equipment delivered under trade arrangements between the CMEA countries ("General conditions for CMEA technical servicing, 1962") were drawn up and entered into force in November 1962.

The "General conditions for assembly work" deal with questions common to all foreign trade transactions (contract procedure, payment, claims, arbitration, etc.), and with such specific questions as preparation for assembly work, assembly equipment and supplies, working conditions of the supplier's specialists, relations between the consignee's and the supplier's representatives, and the completion of assembly operations.

The "General conditions for technical servicing" regulate, inter alia, such questions as the obligations of the purchaser, the obligations of the vendor, the costs of technical servicing, guaranteed services, etc.

The general conditions referred to are based on the principle of the equality of the parties and offer reciprocal advantage to all CMEA countries. They apply equally to export and import operations.

With a view to the further development of economic relations among the members of CMEA through fuller use of the advantages of the international socialist division of labour, the Executive Committee of the Council (1962), following a recommendation by the sixteenth session of the Council, recognized the desirability of establishing a system of multilateral accounts in trade among CMEA countries and of creating an International Bank for Economic Co-operation. The eighteenth session of the Council (1963) approved a draft agreement providing for multilateral accounting in transferable roubles and the organization of an international bank for economic cooperation, and also approved a draft charter for the bank.

In accordance with the terms of this Agreement, settlements under bilateral and multilateral agreements or individual contracts for reciprocal deliveries of goods, or under agreements concerning other payments between contracting parties, will be effected from 1 January 1964 in transferable roubles.

Each contracting party having funds in transferable rouble accounts will be able to draw freely on these funds for payments to other contracting parties. Trade agreements will provide for the setting off within each calendar year of each party's total receipts and payments in transferable roubles from and to all other contracting parties. At the same time, provision will be made for the creation or utilization of possible reserves in transferable roubles, and for credit operations.

The International Bank for Economic Co-operation will, inter alia, effect multilateral settlements in transferable roubles, provide credit for foreign trade and other operations between contracting parties, and attract and act as depository for free funds in transferable roubles.

In addition, the Bank, on the instructions of the countries concerned, will finance and supply credit for joint construction projects and for the reconstruction and operation of industrial enterprises and other projects, against funds set aside by these countries.

Thanks to the all-round development of their economies on the basis of the international socialist division of labour, excellent opportunities are opening up for the CMEA countries to develop their trade with all countries of the world, industrially advanced capitalist countries and developing countries alike. CMEA's Charter lays stress on the readiness of its members to develop economic relations with all countries of the world, irrespective of their social and political structure, on the basis of equality, mutual advantage and non-intervention in each other's domestic affairs. Hence, the economic plans of the members of CMEA are co-ordinated in such a way that the steady expansion of their trade with other countries is taken into account. The international socialist division of labour makes full allowance for the world division of labour. By developing their economic relations with all countries of the world, the members of CMEA are strengthening the material basis of peaceful coexistence between the world's two socio-economic systems.

The members of CMEA today engage in trade with almost all the countries of the world, in the majority of cases on the basis of trade agreements.

Despite the discriminatory measures practised by some Western countries in their trade relations with the socialist world, trade between the members of CMEA and the industrially-advanced capitalist countries is growing, and this trend is reinforced by the active foreign trade policy of CMEA, viz., to expand mutually advantageous trade with all countries irrespective of their socio-economic systems.

The volume of foreign trade between the members of CMEA and the industrially-advanced capitalist countries during the period 1955-1962 more than doubled, rising from 2,700 million roubles to 5,500 million roubles.

Economic relations between the members of CMEA and the new independent States of Asia, Africa and Latin America are being further expanded and strengthened each year, and this is in keeping with the desire of these nations to develop their economies and consolidate their independence.

The total volume of trade between the members of CMEA and these countries in 1962 was over 2,400 million roubles, representing an almost threefold increase as compared with 1955.

The members of CMEA supply these countries with machinery and equipment, raw materials and industrial commodities necessary for their economic development, and import from them many commodities for which they seek markets.

The CMEA countries are assisting the new independent States of Asia, Africa and Latin America along the path of progress, and specifically in the establishment of industries, in the development and strengthening of their economies and in the training of specialists and skilled workers—all of which helps to consolidate further the political and economic independence of these countries.
Economic and technical co-operation between the members of CMEA and these countries is conducted on a basis of equal rights, mutual advantage and respect for one another's sovereignty. Furthermore, the members of CMEA make no demands of a political, military or economic nature that might infringe the sovereignty of these countries. Their cooperation is based upon a sincere desire to help the new States to overcome their backwardness and to raise the levels of living and improve the material well-being of their people.

At the present time, the members of CMEA are providing economic aid and technical assistance to forty developing countries in the construction of over 1,100 industrial enterprises, installations and other facilities, including 166 in India, 50 in Indonesia, 178 in the United Arab Republic, forty-eight in the Syrian Arab Republic, seventeen in Mali, six in Morocco, nine in Argentina and ten in Brazil.

The technical assistance given by the members of CMEA is primarily aimed at building up those key branches of industry which will enable the developing countries to consolidate their economic independence and rid themselves of the single-crop economy.

To help the developing countries pay for the equipment, materials, design and prospecting operations and other types of technical assistance supplied to them, the members of CMEA grant them long-term loans on favourable terms. Repayment of these loans usually takes the form of commodities traditionally exported by these countries (cocoa beans, coffee, tea, oilseeds, cotton, hides, etc.) and of goods manufactured by them.

Over half the funds made available to the developing countries by the members of CMEA are used for the construction of enterprises in the field of heavy industry.

Some 35 per cent alone is spent for construction in the metallurgical, power and coal industries, while some 25 per cent is devoted to the construction of chemical, oil-refining, machine-building and metalworking facilities and of enterprises for the manufacture of construction materials. Loans are also used to finance the construction of transport and communications facilities, geological surveying, prospecting and design operations, the construction of enterprises in the field of light industry and the food industry, scientific, cultural and medical institutions, and housing.

Power stations being built with CMEA technical assistance have an installed capacity of 5.2 million kilowatts, or one-third the capacity of the power stations now operating in the developing countries being assisted; the annual capacity of the metallurgical plants will increase by 3.5 million tons of steel and will be twice the existing capacity; the annual capacity of the oil refineries will be more than 10 million tons of crude oil, representing an increase of over 50 per cent above the present level; and the capacity of the cement factories will rise by 2.5 million tons, or 12.7 per cent.

The Bhilai metallurgical plant in India, constructed with the assistance of the Soviet Union, was by the end of 1960 yielding approximately one-third of all the steel produced in the State sector, and 17 per cent of all the steel smelted in the country. As a result of this sharp increase in its steel output, India has even been able to export some pig iron and steel to other countries.

The Romanian People's Republic supplied technical assistance to India in the construction of an oil refinery at Guwhati with an annual capacity of some 700,000 tons of petroleum products. The refinery was so designed by the Romanian specialists as to be capable of an eventual increase in capacity to 1 million tons a year.

An automobile tire factory constructed in India with technical assistance from Czechoslovakia produces one-third of the tires required by that country's domestic market.

The Polish People's Republic is giving technical assistance to India and Indonesia in the development of their coal industry. The current reconstruction of a coal mine in Western Sumatra is expected to bring about an increase in the annual coal yield from 100,000 to 300,000 tons by 1964, rising to 1 million tons by the end of 1969.

The construction, with technical assistance from the USSR, of a metallurgical plant in Indonesia with an annual capacity of 100,000 tons is the first step towards an indigenous metallurgical industry in that country.

Hydraulic engineering and land reclamation facilities are being constructed in the Syrian Arab Republic with technical assistance from the People's Republic of Bulgaria; such projects include the 250 million cubic metre "Rastâne" reservoir with an attached power station, the 50 million cubic metre "Maharda" reservoir, and the "Arzarhane" irrigation system comprising 120 kilometres of canals for the irrigation of some 25,000 hectares. Two airfields are also being built.

Another project vital to the economy of the Syrian Arab Republic is the construction, in co-operation with the Soviet Union, of a railway some 770 kilometres long to connect the main agricultural regions in the north-east of the country with the port of Latakia.

The biggest bridge in Africa, the Khleevansk railway bridge across the river Nile in the United Arab Republic, was recently built with technical assistance from the Hungarian People's Republic, as was a power station at El Tabina. Further assistance in the development of rail transport is being provided in the form of diesel locomotives.

The Soviet Union is assisting the United Arab Republic in the construction of the Aswan High Dam; of a 2.1 million kilowatt hydro-electric power station capable of generating 10,000 million kilowatt-hours a year, or six times the present consumption of electric power in the United Arab Republic; and of about 2,800 kilometres of power transmission lines. The High Dam and main irrigation canals will make it possible to bring 800,000 hectares of land under cultivation by irrigating new areas and by draining others that are submerged in the time of the floods. Agricultural output will rise by 50 per cent after the
reservoir and other installations have been built. The
benefits brought by the dam will raise the national
income of the United Arab Republic by 45 per cent.

Czechoslovakia is giving technical assistance to
Argentina in the construction of a cement factory with
a daily capacity of 350 tons, and to Brazil in the
construction of a hydro-electric power station with a
capacity of $3 \times 48$ megawatts. It has become tradi-
tional for Hungary to supply Argentina with diesel
locomotives.

The German Democratic Republic, as a State with
a highly developed economy, gives all kinds of
economic aid and technical assistance to the develop-
ing countries.

Thus, with the assistance of the German Democratic
Republic a high-voltage power transmission line and
some textile plants are being constructed in the United
Arab Republic, and one up-to-date printing plant is
being built in Guinea, and another in Ghana. Also,
with the assistance of the German Democratic
Republic, a sugar refinery has been built in Indonesia;
cement plants in Burma and the Syrian Arab Republic;
plants for the manufacture of rayon filament, oxygen,
nitrogen, caustic soda and calcium carbide in India;
and a date-packing plant in Iraq.

The CMEA countries do much to assist the new
sovereign States of Asia, Africa and Latin America by
providing specialized training for their nationals.

By the end of 1962, specialists from the CMEA
countries had provided industrial and technical train-
ing for about 53,000 workers at enterprises undergoing
construction in the developing countries. At the
beginning of 1963, 22,000 workers were being trained
at enterprises being constructed with the aid of the
CMEA countries. In 1962, the members of CMEA
sent over 7,000 specialists and skilled workers to the
developing countries to render various types of
services. Thirty-one educational establishments have
been built in the developing countries with technical
assistance from the members of CMEA, and a number
of others are under construction. Over 10,000 students
from the countries of Asia, Africa and Latin America
are being trained in the educational establishments of
the CMEA countries.

An effective method for the large-scale specialized
training of nationals of the various countries has been
on-the-spot training at large projects being carried out
with technical assistance from members of CMEA in
the country concerned. Thus, during the first phase of
the construction of the Bhilai metallurgical combine,
over 12,000 Indians were trained. Similarly, over
21,000 specialists in various occupations have been
trained in Afghanistan with the assistance of the CMEA
countries.

While seeking to develop and improve every aspect
development co-operation among themselves, the
CMEA countries are also endeavouring to promote
world trade, and in that way to serve the cause of
peace throughout the world.

The readiness of the CMEA countries to develop
economic relations with all other countries is con-
formed, in particular, by the initiative taken by the
Soviet Union and the other members of CMEA for
the convening of the International Conference on
Trade and Development.

The CMEA countries consider that the principal
task of the Conference should be to draw up recom-
mendations and measures aimed at developing trade
among all countries of the world on a basis of equal
rights, mutual advantage and non-interference in one
another's internal affairs, without any discrimination
or artificial barriers. They intend to discuss at the
Conference not only the foreign trade problems of
the developing countries but also such matters as the
elimination of obstacles and discrimination in inter-
national trade, the commercial and economic implica-
tions of general and complete disarmament, and the
role of economic and technical assistance from the
industrially advanced countries to the developing
countries in the creation of independent national
economies.

Since the success of the Conference will depend to
a large extent on the active participation of all inter-
ested countries, the members of CMEA consider it
necessary that all the socialist countries should
participate in the Conference with equal rights,
including the German Democratic Republic, which is
one of the ten most advanced industrial countries of
the world and maintains trade relations with over a
hundred countries. Any obstacles placed in the way
of an invitation to the German Democratic Republic
to participate in the Conference will constitute in-
admissible political discrimination against one of the
members of CMEA and will greatly harm international
development.

The CMEA countries are of the opinion that there
should be a high level of representation at the Confer-
ence and that it would be desirable for the delegations
to the Conference to include representatives of
business circles and of chambers of commerce.

It is the firm conviction of the CMEA countries that
the United Nations Conference must assist in the
creation of an international trade organization embrac-
ing all regions and countries of the world, the functions
of which will be to carry out a systematic and constant
study of ways and means of solving international trade
problems, and to draw up recommendations and
measures to promote the expansion of international
trade and the unhampered economic development of
all countries, and more particularly of the developing
countries.
BASIC PRINCIPLES OF INTERNATIONAL SOCIALIST DIVISION OF LABOUR*

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THE SOCIALIST COMMUNITY AND THE INTERNATIONAL SOCIALIST DIVISION OF LABOUR

1. The world socialist system is a social, economic and political community of free sovereign peoples, building socialism and communism. They are united by common interests and purposes, and the indissoluble bonds of international socialist solidarity. The need for their close cohesion within a single system stems from the objective laws of economic and political development. They have the same type of economic basis—social ownership of the means of production; the same type of political system—rule of the people with the working class at their head; and a common ideology—Marxism-Leninism. They are making a concerted effort to build socialism and communism, and produce a mighty economic upsurge in each country and thereby in the system as a whole; they are determined to safeguard their revolutionary gains from encroachments by imperialist reaction and to ensure stable world peace. This system has now entered a new stage of development.

2. The union of the socialist States into a single camp and its ever-growing cohesion and might ensure full victory for socialism and communism on the scale of the whole system.

3. The socialist community realises its aims through comprehensive political, economic and cultural cooperation, with each member abiding by the principles of full equality, mutual respect for each other's independence and sovereignty, fraternal assistance and mutual benefit. In the socialist camp no one has—or can have—any special rights or privileges. The observance of the principles of Marxism-Leninism is an indispensable condition for the successful development of the world socialist system.

4. The socialist countries, as Lenin predicted, exert the main effect on the course of world social development primarily by their economic achievements. In a short historical period the socialist countries have had amazing success in creative endeavour in industry, science and technology and in raising the people's living standards owing to the advantages of the new social system, the active participation of the working people in socialist and communist construction under the leadership of the communist and workers' parties, and their indissoluble friendship and fraternal cooperation.

5. Every socialist State has its own national economic plan which reckons with concrete conditions at home, the political and economic tasks set out by the communist and workers' parties, and the needs and possibilities of all socialist countries. The new social system makes it possible to combine organically national economic development with the growth and strengthening of the world economic system of socialism. The headway the system makes depends on the contribution of each member.

6. The socialist countries consider it their internationalist duty to work for a higher rate of industrial and agricultural growth in each country in accordance with the available possibilities, and for the gradual levelling out of their economic development. They are determined to surpass the world capitalist system in industrial and agricultural output and then to outstrip the most developed capitalist countries in per capita output and living standards. This demands maximum scope for the creative ability and initiative of the people in each socialist country, industrial development of all socialist countries, utmost productivity of social labour, continued technical progress, steady improvement of economic planning and management, sharing of collective experience and greater economic co-operation between the socialist countries. The highroad along which the world socialist economy will advance to ever higher ground is integration of national economic effort with the common effort to achieve greater economic co-operation and mutual assistance.

* This paper was submitted by the Council for Mutual Economic Assistance in connexion with the sub-item on "Implications for trade and development of developing countries of economic groupings of developed countries and/or preferential trading arrangements" (item V.1 of the list of main topics). See Interim Report of the Preparatory Committee (first session), in Vol. VIII of this series.
7. Various forms of economic co-operation and mutual assistance have taken shape and are being improved by the socialist countries; among them are co-ordination of national economic plans, specialization and combination of production, international socialist trade, credits, technical assistance and scientific and technical co-operation, joint construction of industrial projects and the working of natural resources. The organizational principles of economic co-operation are also being constantly perfected, the Council of Mutual Economic Aid (CMEA), the agency which organizes such co-operation, is firmly on its feet.

8. The consolidation and extension of economic ties between the socialist countries will strengthen the objective trend, pointed up by Lenin, towards the formation of a future world communist economy run by the victorious working people under a master plan.

9. A new type of international division of labour is taking shape in the process of economic, scientific and technical co-operation between the socialist countries.

10. International capitalist division of labour is an expression of relations based on the exploitation of the weak by the strong; it takes shape spontaneously, in the course of bitter competitive struggle and expansion by the capitalist monopolies; it widens economic gaps and creates an ugly lop-sided economic structure in the economically under-developed countries. By contrast, international socialist division of labour is planned and deliberate; it is carried on in accordance with the vital interests of the socialist countries and their harmonious, all-round development, and leads to greater unity.

11. Under the planned international socialist division of labour, the advantages of the world socialist system can be used to the full; proper economic proportions can be established in each country; there can be rational distribution of productive forces on the scale of the system, effective use of manpower and material resources and strengthening of the defensive might of the socialist camp. The division of labour must reliably assure each socialist country of a market for the sale of items in which it specializes and for the purchase of raw materials, plant and other goods. Its aim is to make social production more effective, to promote the high rates of economic growth and of the living standard in all the socialist countries, to further industrialization, and the gradual eradication of the history-rooted economic disparities of the socialist countries and to create a material basis for a more or less simultaneous transition to communism within one and the same historical epoch.

12. At each historical stage this division of labour helps to fulfill the basic tasks facing each socialist country and the world socialist system as a whole. It is shaped with an eye to the world-wide division of labour. The socialist countries, by developing their economic ties with all countries, consolidate the material foundation of peaceful coexistence between the two world socio-economic systems.

13. The international socialist division of labour is initiated and organized by the communist and workers’ parties of the socialist countries. Its development and improvement is an integral part of their scientifically substantiated economic policy.

14. The socialist countries have made considerable progress in their division of labour. In accordance with the recommendations of the CMEA, international specialization and combination of production are being extended in engineering, the chemical industry, certain types of ferrous and non-ferrous items and in other industries. The volume of reciprocal deliveries between the socialist countries has been growing rapidly: from 1950 to 1960 it increased more than threefold. Following the meeting of the representatives of the communist and workers’ parties of the CMEA countries in May 1958, the co-ordination of national economic plans, which is the principal form of economic co-operation between the socialist countries, was taken a step farther.

15. The world socialist system also has every possibility of extending its division of labour, particularly in specializing and combining production and wider use of the advantages it offers. This applies especially to long-term plans for the economic development of the socialist countries.

16. The world socialist system actively promotes the establishment in economic relations of the principles of sovereignty, equality, mutual benefit and international friendship. The extension of economic co-operation between the socialist countries and the countries of Asia, Africa and Latin America, based on these principles, is an important factor in the independent economic and political progress of the young national States.

17. The world socialist system is now having a great impact on world development and is becoming the decisive factor in social progress.

2. CO-ORDINATION OF NATIONAL ECONOMIC PLANS IS THE CHIEF VEHICLE FOR THE DEVELOPMENT AND EXPANSION OF THE INTERNATIONAL SOCIALIST DIVISION OF LABOUR

18. The economic experience of the world socialist system shows that co-ordination of national economic plans is the chief means of systematically extending the international socialist division of labour and the integration of the productive efforts of the socialist countries at the present stage.

19. Co-ordination of plans is joint voluntary planning by socialist States for the maximum use of the political and economic advantages offered by the socialist system to ensure an early triumph of socialism and communism. It helps to carry out the policy of the communist and workers’ parties, which is based on scientific Marxist-Leninist principles and a thorough analysis of economic possibilities and needs.

20. The experience of economic co-operation through the CMEA shows that the co-ordination of plans should be aimed at implementing the following interconnected objective principles underlying the development of the international division of labour in the socialist world:

- correct assessment of the objectively necessary proportions of economic development in each country
and in the world socialist system as a whole, conducive
to a balanced economy in each country;
economic effectiveness of the international socialist
division of labour, which has its expression in rapid
industrial growth and the fullest satisfaction of the
people's needs in each country, with a minimum
expenditure of social labour;
international specialization of production in combi-
nation with comprehensive (versatile) economic
development of each socialist country for the fullest
and most rational use of natural and economic pre-
requisites of production, including manpower re-
sources, in all countries; and

gradual elimination of history-rooted economic dis-
parities, primarily by industrializing the countries with
a relatively low economic level, and by making the
maximum use of internal resources of each country
and of the advantages of the world socialist system as
a whole.

21. The co-ordination of national economic plans
makes possible a constant correspondence between
the steadily growing and changing structure of social
needs and the development of material production in
each country and in the system as a whole. It should,
in the first place, extend to the principal branches
(types) of production in which objective conditions
make and will continue to make international speciali-
zation and combination more and more important,
and also to transport servicing international trade. It
will be increasingly important to the extension and
consolidation of ties between the national economies
and to planned extended reproduction in individual
countries and thereby in the world socialist system as
a whole. The links between the national economies
arising from the division of labour must be sound and
stable because their disruption by even one country
will inevitably disrupt the economic rhythm in the
other socialist countries.

22. When national economic plans are co-
ordinated, there must be maximum consideration of
the need to ensure the manufacture of key items in
quantities sufficient to satisfy the requirements of the
socialist countries with an eye to the steady develop-
ment of their trade with other countries.

23. Under the impact of numerous factors,
technical progress in the first place, there are changes
in the proportions and the direction of the inter-
national division of labour which make social produc-
tion most effective in each socialist country and,
accordingly, in the world socialist system. Considera-
tion of the principal trends in technical progress and
of their economic effect is a most important aspect of
long-term plans and their co-ordination.

24. Joint elaboration of data on production and
consumption of key items in the socialist camp or any
group of countries concerned, compilation of con-
solidated economic estimates, analyses and alterna-
tive solutions to economic problems are an important
method of co-ordinating national economic plans, and
specializing and combining production. There is also
need to keep payments in balance.

25. National material reserves are of great impor-
tance for the successful development of the inter-
national socialist division of labour. These reserves
make economic ties more durable and stable.

26. Increasingly effective co-ordination implies the
following:
it must be both bilateral and multilateral, with the
latter aspect subsequently increasing in importance;
it must primarily extend to long-term plans, as this
allows provision for the necessary changes in the
structure and technology of production, etc., so as to
widen and improve the international socialist division
of labour;

it must be carried out during the compilation of
plans by the various countries;
it must provide for measures ensuring fulfilment by
the countries of the agreed commitments on delivery
dates, volume, quality and technical standards of the
items delivered, etc.; and

it must provide for joint efforts by several countries
to solve major economic and technical problems.

27. The ever broader co-ordination of national
economic plans by the socialist countries implies
unification of the basic methodological principles
underlying the working out of plan indexes and
statistical returns so as to ensure comparability.

3. MAIN TRENDS OF THE RATIONAL DIVISION
OF LABOUR IN KEY INDUSTRIES

28. The further improvement of the international
socialist division of labour through the co-ordination
of plans implies accelerated development of such pro-
gressive forms as specialization and combination of
production within the framework of the socialist camp.
Inter-State specialization means that the manufacture
of one type of product is concentrated in one or several
socialist countries to satisfy the needs of the countries
concerned; as a result, the level of technology and
organization of production in the given industry is
raised, and stable economic ties and combination of
production are established between the countries. Inter-
national specialization of production leads to greater
output, lower costs, higher productivity of labour and
better quality and technical standards.

29. International specialization and combination
of production actively promote technical progress and
lead to rapid industrial development in all socialist
countries. They are of vital economic importance to
the development of all industries, especially engineer-
ing, the chemical industry and ferrous and non-ferrous
metallurgy. Specialization can serve as a basis for
rapidly putting into production the latest types of
products reflecting modern technical trends.

30. The broad establishment of norms, types and
standards at home and on the international scale is a
most important prerequisite for the further extension
of specialization and combination of production; this
applies primarily to materials, components, units and
finished products which it is expedient to mass produce
or manufacture in large batches to satisfy the needs of
several countries.

31. To develop the most rational trends in the
international division of labour in the raw material,
fuel and power industries and to ensure a high rate of
their growth, the following conditions are most important:

- the extension of the domestic raw material and power base primarily by intensifying and making more effective geological prospecting for minerals which, in case of need, is conducted jointly by several countries in the major promising areas;
- the greatest possible production in the socialist countries of raw materials of which there is a scarcity in the socialist camp, with an eye to natural and economic conditions;
- sharing of advanced technical experience in the production and economical use of certain types of raw materials, increase in the coefficient of extraction of minerals from the worked deposits, and more efficient extraction of useful components from the raw materials;
- mutual assistance in expanding raw material industries, in particular through the financial participation of States desirous of receiving products from these industries;
- technical development in the extraction of fuels and raw materials as well as the production of construction materials designed to reduce running costs, improve the quality of existing fuels and materials, and introduce new fuels and materials, especially synthetic ones; and
- complex use of national water resources to develop the power industry, water transport, and also irrigation and land reclamation.

32. How well raw material and power resources are used largely depends on transport costs in delivering raw materials to consumers. These costs can be reduced in the following ways:

- beneficitation of raw materials at their places of origin;
- processing of raw materials, mainly near their places of origin, to a stage that would reduce expenditures on production and subsequent transportation to a minimum, in accordance with the conditions and demand in the countries, as stipulated by agreements among them;
- development of the most effective means of transport, especially of electric transmission lines and pipelines, a steady raising of the technical level and productivity of all types of transport.

33. When plans for the development of the key industries are being co-ordinated, the following should also be taken into consideration:

34. (a) The international socialist division of labour in the fuel and power industries will develop and will play an ever greater part in satisfying the needs of the socialist countries in power. This implies:

- development within the socialist camp of power generation at high rates which outstrip industrial growth;
- development of power-consuming industries, above all near the sources of cheap power so as to reduce power losses and save on the construction of electric transmission lines;
- reduction of power-coal carriage to the extent to which such carriage may be profitably substituted by direct transmission of electricity along power lines; and

- gradual integration of power grids by groups of countries, as one of the main progressive trends in the division and combination of social labour in the socialist world. This implies greater co-operation in reciprocal supplies of electricity, and in the construction of large-scale power capacities and transmission lines.

35. The trends in the international socialist division of labour in this sphere may change as a result of the discovery of new sources or types of power accessible to all countries, or of a radical change in the use of conventional sources of power.

36. (b) The development of the international socialist division of labour in the sphere of metallurgy must produce the maximum rate of growth of ferrous and non-ferrous metals output in the necessary assortment, to satisfy growing demand, and reduce the costs of metal production.

37. Division of labour in the metallurgical industry is determined by the need to develop this industry in all the socialist countries, depending on the availability of raw materials, technological fuel and power sources, and the rational import of raw materials from other countries. It is expedient to develop complete-cycle metallurgy above all in countries which are fully or largely provided with ores and technological fuel or with at least one of these basic types of raw materials.

38. With the advance of the international socialist division of labour in the sphere of ferrous metallurgy (including the extraction of metallurgical raw materials) the share of semi-finished and finished products (pig iron, rolled stock, pipes, etc.) in the international exchange of these commodities is increased to an optimum.

39. The division of labour in the metallurgical industry should be organized with a view to concentrating metallurgical operations and improving their technical and economic indexes.

40. However, because of the constant change in the assortment of finished ferrous and non-ferrous products and the different requirements of modern industry in various shapes of rolled stock, steel grades and types of non-ferrous metals, it is expedient to effect an optimal combination of large-scale metallurgical combines with medium-size and small enterprises and shops which are up to modern technical standards and are designed to turn out small batches of finished products.

41. In order to ensure optimum serial output and make use of rolling equipment with greater effect in all countries, it is expedient to specialize rolled stock production by shapes and to arrange an exchange of the required rolled stock shapes.

42. In order to create conditions for saving metal in engineering and other industries, the production of quality steels, sheet steel, pipes, roll-form stock and other progressive shapes of rolled stock must be substantially expanded on the basis of international specialization.

43. (c) The fabrication of chemical products, especially of plastics and other synthetic materials, and
also of mineral fertilizers, should be developed at an accelerated pace in all socialist countries.

44. Each country develops its chemical production chiefly from its own raw materials, but it also develops the manufacture of items from raw materials which it pays to use in spite of transportation over long distances and which may be put to comprehensive use after processing.

45. The widening range of chemical products and the need to set up large-scale production units call for ever greater international specialization and economic cooperation in this sphere, above all in production requiring great capital outlays and special plant, as well as exchange of the items produced (dyes, chemical reagents, pharmaceutical preparations, etc.).

46. (d) Mechanical engineering is developing in all the socialist countries with the use of the advantages offered by international specialization and combination. In specialization, account must be taken of the need for the accelerated growth of mechanical engineering countries where it is relatively less developed.

47. The growing scale of mechanical engineering, the rise of new branches and types of production, and the steady extension of the range and technical standards of items demand ever greater depth in the international specialization and combination of this industry. Specialization and combination are an important condition for the rapid introduction of advanced technology, complete mechanization and automation of production, and the mastering in the socialist countries of the whole range of modern types of machines and their sustained technical improvement.

48. Specialization in the manufacture of machines between the socialist countries should not be confined to separate items or size-types. In the long-run prospect, attention should be centred on specialization by key groups and types of engineering products (with similar design and technology), and also on specialization and combination in the production of complete equipment and plant for complete production lines. This creates better conditions for concentrating production, introducing modern machinery and technology, and also for greater efficiency in the organization of production and the use of standards, types and norms.

49. Specialization and combination in the manufacture of components and units is another promising trend in the division of labour in engineering, with the country that specializes in the manufacture of the finished product not necessarily producing all the components. It is expedient to make components and elements mainly at specialized plants.

50. In specialization by article, the countries manufacturing certain types of products for other countries must satisfy all the requirements of the consumer countries, including components, high technical standards and the supply of spare parts.

51. Countries with an inadequate metallurgical base should chiefly manufacture items which require less metal but are labour-consuming. Countries with a developed metallurgical base should produce both the metal-consuming and the labour-consuming types of engineering products. In addition, specialization of mechanical engineering in each country, especially of the manufacture of technological equipment, is organized with an eye to the present industrial structure of the national economy, and planned progressive changes in this structure.

52. Specialization of mechanical engineering takes account of the ever wider use of new construction materials, mainly those produced by the chemical industry.

53. (e) Specialization in the manufacture of consumer goods is expedient only when the total volume of demand for some range of products or models in a given country is, and is expected to remain for a number of years, below the optimum of rational production at the existing technical level.

54. International specialization in the manufacture of consumer goods should be effected through agreements between the countries concerned for the maximum satisfaction of demand in these countries, with an account of higher serial production and utmost extension of exchange of these goods to enlarge their assortment on domestic markets.

55. The food industry is developed and specialized in each country in such a way as to ensure the fullest possible processing of local agricultural raw materials.

56. (f) The further development of agriculture in the socialist countries is determined by the need to increase to the utmost the output of food and agricultural raw materials so as to attain the world's highest living standard.

57. Owing to the different per capita amounts of farmland and varying soils and climate in the socialist countries, they will continue their exchange of agricultural produce and develop it further. This makes it necessary to co-ordinate plans with due account for the possibility of further developing agricultural specialization between the socialist countries in line with their interests and potential. This problem should be solved in such a way as to provide for the maximum output of corn and animal products in each socialist country.

58. Increase of agricultural production and its greater efficiency also imply a co-ordination of plans and combination of production in the manufacture of farm machinery, chemicals, synthetic feeding stuffs, and also extended exchange of high-quality seeds, etc.

4. THE HIGH ECONOMIC EFFECT OF THE INTERNATIONAL SOCIALIST DIVISION OF LABOUR

59. The international socialist division of labour makes social production more effective, thereby promoting the solution of the economic and political tasks put forward by the communist and workers' parties at each historical stage.

60. The effectiveness of social production in the socialist world has its expression in the high and stable rates of output increases, which allow ever fuller satisfaction of the growing needs of the peoples in all socialist countries and make possible a steady elimination of their economic disparities.
61. If the international socialist division of labour is to produce a great economic effect, rational proportions should be achieved in production through the co-ordination of national plans, including the most rational distribution of production capacities for the manufacture of similar-type or interchangeable items. The criterion of its effectiveness is the growth of the productivity of social labour, i.e., a minimum expenditure of materials and labour in the manufacture and transportation of a given product.

62. The reduction of expenditure in all countries in widening the international socialist division of labour is attained through specialization, optimal concentration of production, higher technical levels, better use of capital investments, equipment, raw materials, fuels, manpower and skilled personnel, more rational distribution of the productive forces, higher quality of the articles produced, etc.

63. Greater effectiveness of social production through better division of labour is fully in line with the national and common interests of the socialist countries. The interest of each socialist country in widening the international division of labour, so as to make it effective from the standpoint of the world socialist system as a whole, will when necessary be ensured by appropriate forms of co-operation and assistance on the part of the other socialist countries.

64. Estimates of the relative economic effectiveness of capital investments and production in the socialist countries and of the economic effect of foreign trade are used in co-ordinating national plans as an important, though not the only, criterion in substantiating rational ways of developing the international socialist division of labour.

65. Estimates of reductions in current expenses on the manufacture and transportation of specialized items and the reduction of the share of capital expenditure per unit of production with an eye to the time and returns factors, are most important methods of assessing specialization variants.

66. In drawing up such estimates, the cost indexes must be supplemented by a system of comparable technical and economic estimates and physical indexes shedding light on every aspect of the variants of international specialization of production in terms of economic effectiveness.

67. Since specialization and combination measures are long-term, provision must be made, when comparing the cost, technical and economic indexes, for eventual long-run changes in these indexes under the impact of technical progress.

68. Alongside the estimates of economic effectiveness in perfecting the international socialist division of labour account is also taken of the need to ensure full employment of labour and an equilibrium in the balance of payments, of the part played by the given industry in raising the productivity of social labour in the entire national economy and in evening out the economic levels of the countries, strengthening defence capacity and of other factors.

69. The continued extension of scientific and technical co-operation leads to a steady rise in the economic effectiveness of social production in the socialist camp. This applies especially to the following:

- sharing of advanced experience and accomplishments in all spheres of production, science and technology, as well as mutual assistance in the training of personnel;
- specialization and co-ordination of research and design projects as one of the most important components in the rational specialization of production proper;
- joint research and design projects and improved organizational forms of collective research, concentration of scientific and technical resources through specialization and co-ordination of projects for the solution of the most important problems in accelerating economic development; and
- exchange of experience in organizing production and economic management at all levels.

5. INTERNATIONAL SPECIALIZATION AND THE COMPREHENSIVE ECONOMIC DEVELOPMENT OF EACH SOCIALIST COUNTRY

70. The world socialist system of economy provides favourable conditions not only for consistent and systematic extension of the division of labour between the countries but also for the formation in each of a rational complex of interrelated industries supplementing each other. This means the creation in the socialist countries of a versatile economic structure, combining in an optimal complex industry and agriculture, extractive and processing industries, production of the means of production and production of the articles of consumption, and conducive to higher rates and greater effectiveness of economic development in these countries.

71. International specialization and the development of national economic complexes are interdependent because only when they are harmonized will they ensure the fullest and most economical use of the productive forces of each socialist country and the camp as a whole. Any trend towards a tight economic complex to the detriment of rational international division of labour or any one-sided international specialization of the economy may lower the effectiveness and slow down the pace of economic development in the countries or the system as a whole.

72. National economic complexes, like international specialization of production, take shape gradually through the most effective use, from the national and international standpoint, of the following basic factors:

- existing and planned production capacities, manpower resources, possibilities for the numerical growth of personnel and the improvement of their skill;
- existing national income levels, accumulation and consumption in the national economy, possibilities for raising their levels and, accordingly, the volume of the domestic market;
- natural resources, soils and climate;
- geographical position in relation to other countries, existing and potential international communications;
and existing and potential economic ties with the socialist countries and other countries of the world.

73. There must, however, be no under-estimation of the role of natural conditions and historical traditions whose most effective and fullest use must go hand in hand with the creation of new conditions and traditions in accordance with the tasks of socialist and communist construction.

74. It is essential to develop the economic complex in each country in such a way as to provide for a steady rise in its economic level. This implies above all the utmost development of socialist industry as the leading branch of the national economy, with priority for the production of the means of production. The creation of an optimal national economic complex in each country involves the following:

- development of the national fuel, power and raw material industries through the maximum use of domestic resources so as to produce the greatest economic effect from the national and international standpoint;
- increase in the share of industries constituting the basis of technical progress in the national economy, especially mechanical engineering and the chemical industry;
- development of the building materials, light and food industries using domestic raw materials and satisfying the principal domestic requirements;
- development of modern transport and communications facilities;
- development of agriculture ensuring the maximum possible satisfaction of the country’s requirements in food, feed, and raw materials for industry; greater intensification, for this purpose, of the key agricultural industries in all countries and productive use of unused farmland;
- full employment of the able-bodied population;
- faster industrial development of under-developed areas in each country; and
- utmost use of the advantages offered by the international specialization of production in the socialist world and the possibility of expanding trade with the capitalist countries.

75. It is necessary to widen interstate specialization for some items in industries which are developed in all or in most socialist countries. When specialization is developed due consideration should be given not only to the demand in the socialist countries but also to the possibility of export outside the world socialist system.

76. Alongside the comprehensive development of the economy of each country, the international socialist division of labour promotes the formation of production complexes with the participation of several socialist countries.

6. ELIMINATION OF HISTORY-ROOTED ECONOMIC DISPARITIES

77. The countries of the world socialist system began the construction of socialist societies with their productive forces at different levels. The need to even out their economic development is inherent in socialism. If all the peoples of the socialist countries are to have the world’s highest living standard and if they are to effect a more or less simultaneous transition to communism, they must create the necessary production prerequisites. The material prerequisites for the construction of communism are created by the labour of the people of each country and by their steadily growing contribution to the common cause—the consolidation of the socialist system.

78. The elimination of economic disparities promotes the fuller use of the advantages of the international socialist division of labour and is at the same time one of the factors accelerating the economic development of the socialist system. It promotes the formation of optimal proportions of extended reproduction within the framework of the world socialist system.

79. The substantial disparities in the levels of national productive forces stemming from the historical conditions of economic development in each country under capitalism are eliminated in the course of socialist and communist construction. The socialist countries will draw nearer to each other in per capita national income and industrial output, efficiency of agricultural production, levels of labour productivity, and key living standard indexes. In the final analysis, this implies a more rapid advance of countries with lower economic levels in comparison with other socialist countries.

80. However, to even out the economic levels is not to eliminate all distinctions which depend on natural resources, climate, national features in the structure of consumption and way of life.

81. The utmost use of the advantages of socialist society and the world socialist system, fraternal cooperation and mutual assistance are a condition for the rapid development of the economy and the living standard in the countries with lower economic levels. This calls for maximum mobilisation of internal resources in the economically less-developed countries, a relatively higher level of accumulations, a steady growth of technical facilities, employment of the able-bodied population, and rapidly growing productivity of social labour.

82. The other socialist countries help make these efforts more effective as follows:
- share the latest scientific and technical achievements;
- provide assistance in designing technically up-to-date enterprises, geological prospecting, and training skilled personnel;
- deliver industrial plant, especially complete equipment for industrial enterprises, assist in assembling and setting up this equipment;
- extend credits and other types of assistance.

83. These purposes are also served by cooperation in the construction of industrial projects, the working of natural resources and in supplying raw materials, fuel and electricity.

84. Socialist industrialization which provides for the development of the heavy industry and its core—mechanical engineering—is the road leading away from technical and economic backwardness. It has
been tested by the Soviet Union and the other socialist countries. Industrialization is greatly accelerated and facilitated by the use of the advantages of the international socialist division of labour.

85. Economic, scientific and technical co-operation between the socialist countries, mutual assistance, and division of labour should promote the maximum consolidation of national economic complexes and the expansion of production in the less-developed countries. Each socialist country and the world socialist system as a whole stand to gain from all-round fraternal co-operation.

7. DIVISION OF LABOUR AND TRADE BETWEEN THE SOCIALIST COUNTRIES

86. The international socialist division of labour is the basis for equivalent trade between the socialist countries. The organization of commodity deliveries and payments relations on the world socialist market is aimed at a deeper planned division of labour between the socialist countries. As the division of labour develops, there is need for sustained improvement of their commodity and money relations.

87. Implementation of the recommendations on international specialization and combination of production submitted by competent organs of the countries implies the conclusion of long-term bilateral and multilateral trade and other agreements providing for the volume and terms of delivery of specialized products, and also responsibility of the parties for the fulfilment of obligations covering such deliveries, for due technical standards, quality and delivery dates. In doing this, it is necessary to gradually introduce multilateral trade and payments agreements.

88. Multilateral co-ordination of plans and the recommendations on specialization and combination of production based on it should ensure a balancing of the payments relations of each socialist country, particularly through ever wider use of multilateral settlement of accounts. It should be borne in mind that an equilibrium in the payments balance does not mean a balancing of reciprocal payments for products and groups of commodities. Performance of obligations written into trade and other agreements, especially in respect of agreed volumes, quality and delivery dates, should be regarded as the primary duty of the socialist states.

89. The system of price formation on the world socialist market must be continuously improved to meet the planned broadening of the division of labour, steady expansion of trade and accelerated development of the world socialist economy, simultaneously creating the conditions for transition to a price basis of its own.

90. The basic principles of the international socialist division of labour are an expression of the general laws underlying the development of the world socialist system. They spring from the nature of relations between the socialist countries and the level of the productive forces and the economic co-operation they have achieved; they also have a bearing on the concrete economic and political tasks facing each country and the world socialist system as a whole.

91. The various aspects of the international socialist division of labour described above will be improved, supplemented and made more specific with the advance and consolidation of economic co-operation between the socialist countries and new experience in international specialization and combination of production.
AGRICULTURAL COMMODITIES AND THE EUROPEAN ECONOMIC COMMUNITY*

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INTRODUCTION
1. This paper comprises sections on ten commodities or groups of commodities. These account for the major part of agricultural production within the European Economic Community and a very high proportion of its agricultural imports. The commodity sections are presented as follows:

(a) Commodities for which the common agricultural policy of the EEC has been to a large extent already defined and adopted, and for which variable levies on imports from third countries have been introduced (grains, pig meat, poultry and eggs);

(b) Commodities produced in the Community for which proposals for common agricultural policies have been formulated but not yet adopted by the Council of Ministers of the Community. Common agricultural policies for these commodities may be agreed before the end of 1963 and introduced during the spring of 1964 (beef, fats and oils, dairy products, rice and sugar);

(c) Tropical and sub-tropical commodities (cocoa, coffee, cotton and bananas) which are not produced by the Six (except for relatively small quantities of cotton), but the trade in which is affected by the provisions of the Convention of Association between the Community and the Associated African States and Madagascar, and by the common external tariff of the EEC;

(d) Commodities for which the common agricultural policy has been defined and put into operation but for which no internal market organization or variable import levies are planned by the Community (fruit and vegetables).

2. Broadly speaking, each commodity section deals with the following: (1) place of the Community in world production and trade; (2) the EEC's policy or proposed measures; (3) recent developments in trade; and (4) longer-term prospects for production, consumption and trade in the relevant commodity.

3. Three Appendices supplement the information given in the body of the paper. Appendix A contains a summary of the main provisions of the new Convention of Association. Appendix B analyses the development of trade between the EEC and its associates during the period of the first Convention of Association, 1958-1962, with reference to trade between the EEC and non-industrialized countries in general. Finally, Appendix C supplies some information on recent developments in relations between the Community and certain other countries.

GRAINS (EXCLUDING RICE)

Place of the Community in world production and trade

4. In 1960/61, 27.1 million tons of wheat and 35.5 million tons of coarse grains were consumed within the EEC area. Of this, 22.7 million tons, mostly wheat,
TABLE 1
Pattern of EEC wheat (excl. flour) imports in 1961/62 (June/July)
(In thousands of metric tons)

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<thead>
<tr>
<th></th>
<th>Total EEC</th>
<th>France</th>
<th>Germany (Fed. Rep.)</th>
<th>Italy</th>
<th>Belgium-Luxembourg</th>
<th>Netherlands</th>
</tr>
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<tr>
<td>Total imports</td>
<td>6,236</td>
<td>359</td>
<td>3,478</td>
<td>896</td>
<td>482</td>
<td>1,021</td>
</tr>
<tr>
<td>From EEC</td>
<td>637</td>
<td>—</td>
<td>519</td>
<td>6</td>
<td>482</td>
<td>112</td>
</tr>
<tr>
<td>France</td>
<td>554</td>
<td>—</td>
<td>513</td>
<td>3</td>
<td>—</td>
<td>38</td>
</tr>
<tr>
<td>Germany (Federal Republic)</td>
<td>61</td>
<td>—</td>
<td>—</td>
<td>3</td>
<td>—</td>
<td>58</td>
</tr>
<tr>
<td>Italy</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Belgium-Luxembourg</td>
<td>16</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>16</td>
</tr>
<tr>
<td>Netherlands</td>
<td>6</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>From other countries</td>
<td>5,599</td>
<td>359</td>
<td>2,959</td>
<td>890</td>
<td>482</td>
<td>909</td>
</tr>
<tr>
<td>United States</td>
<td>1,842</td>
<td>184</td>
<td>448</td>
<td>499</td>
<td>159</td>
<td>552</td>
</tr>
<tr>
<td>Canada</td>
<td>1,693</td>
<td>72</td>
<td>1,195</td>
<td>92</td>
<td>246</td>
<td>88</td>
</tr>
<tr>
<td>Argentina</td>
<td>920</td>
<td>90</td>
<td>660</td>
<td>85</td>
<td>26</td>
<td>59</td>
</tr>
<tr>
<td>Tunisia</td>
<td>8</td>
<td>8</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Australia</td>
<td>545</td>
<td>3</td>
<td>343</td>
<td>199</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Eastern Europe</td>
<td>289</td>
<td>—</td>
<td>130</td>
<td>1</td>
<td>40</td>
<td>119</td>
</tr>
<tr>
<td>Sweden</td>
<td>149</td>
<td>—</td>
<td>149</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Other</td>
<td>151</td>
<td>1</td>
<td>—</td>
<td>33</td>
<td>14</td>
<td>11</td>
</tr>
</tbody>
</table>

5. Gross imports into EEC countries represent on average about 15 per cent of world trade in wheat (excluding trade within the Eastern Trading Area), and about 40 per cent of world coarse grain imports. In 1961/62, only about 10 per cent of the EEC's grain imports came from other member countries, France being the main supplier and the Federal Republic of Germany the main recipient in this intra-trade. The United States and Canada supplied about two-thirds of the Community's wheat imports originating outside the area, and the United States and Argentina accounted for two-thirds of the coarse grain imports into the area (see Tables 1 and 2).

TABLE 2
Pattern of EEC coarse grain imports in 1961/62 (June/July)
(In thousands of metric tons)

<table>
<thead>
<tr>
<th></th>
<th>Total EEC</th>
<th>France*</th>
<th>Germany (Fed. Rep.)*</th>
<th>Italy</th>
<th>Belgium-Luxembourg*</th>
<th>Netherlands*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total imports</td>
<td>12,253</td>
<td>435</td>
<td>4,607</td>
<td>2,674</td>
<td>1,564</td>
<td>2,973</td>
</tr>
<tr>
<td>From EEC</td>
<td>1,341</td>
<td>3</td>
<td>539</td>
<td>446</td>
<td>204</td>
<td>149</td>
</tr>
<tr>
<td>Belgium-Lux</td>
<td>16</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>France</td>
<td>1,043</td>
<td>403</td>
<td>426</td>
<td>115</td>
<td>99</td>
<td>33</td>
</tr>
<tr>
<td>Germany (Fed. Rep.)</td>
<td>57</td>
<td>—</td>
<td>20</td>
<td>4</td>
<td>3</td>
<td>—</td>
</tr>
<tr>
<td>Italy</td>
<td>8</td>
<td>2</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Netherlands</td>
<td>216</td>
<td>3†</td>
<td>135</td>
<td>78</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>From other countries</td>
<td>10,912</td>
<td>432</td>
<td>4,068</td>
<td>2,228</td>
<td>1,360</td>
<td>2,824</td>
</tr>
<tr>
<td>United States</td>
<td>5,038</td>
<td>318</td>
<td>1,515</td>
<td>442</td>
<td>799</td>
<td>1,964</td>
</tr>
<tr>
<td>Canada</td>
<td>82</td>
<td>—</td>
<td>74</td>
<td>—</td>
<td>—</td>
<td>8</td>
</tr>
<tr>
<td>Argentina</td>
<td>2,090</td>
<td>35</td>
<td>397</td>
<td>943</td>
<td>248</td>
<td>467</td>
</tr>
<tr>
<td>Australia</td>
<td>581</td>
<td>1</td>
<td>467</td>
<td>86</td>
<td>1</td>
<td>26</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>343</td>
<td>9</td>
<td>280</td>
<td>17</td>
<td>46</td>
<td>46</td>
</tr>
<tr>
<td>Sweden</td>
<td>250</td>
<td>—</td>
<td>129</td>
<td>19</td>
<td>93</td>
<td>93</td>
</tr>
<tr>
<td>Other W. Europe</td>
<td>122</td>
<td>—</td>
<td>44</td>
<td>6</td>
<td>10</td>
<td>62</td>
</tr>
<tr>
<td>Eastern Europe</td>
<td>1,003</td>
<td>23</td>
<td>687</td>
<td>186</td>
<td>80</td>
<td>27</td>
</tr>
<tr>
<td>South Africa Rep.</td>
<td>712</td>
<td>12</td>
<td>246</td>
<td>344</td>
<td>20</td>
<td>90</td>
</tr>
<tr>
<td>Other Africa</td>
<td>81</td>
<td>11</td>
<td>43</td>
<td>—</td>
<td>1</td>
<td>6</td>
</tr>
<tr>
<td>Near East Asia</td>
<td>42</td>
<td>18</td>
<td>—</td>
<td>2†</td>
<td>13</td>
<td>9</td>
</tr>
</tbody>
</table>

* Excluding imports for seeding purposes.
† Less than 500 metric tons.
The EEC’s policy for grains

6. The aim of the EEC grain policy is the establishment, during a transition period up to 1970, of a common market for grains. EEC Regulation No. 19, which provides for the gradual creation of this market, came into force on 30 July 1962. For regulating the grain economy, the EEC authorities rely exclusively on measures affecting prices of home-grown and imported grains sold in Community markets. The system centres around a series of basic target prices which are fixed for the principal locally-produced grains before the beginning of the crop year. These target prices are supplemented by intervention and threshold prices. All former quantitative restrictions, mixing regulations, State trading and long-term contracts have been abolished. An exception is the French limitation of the wheat price guarantee to a fixed quantum, which will remain in force until the end of the transition period.

7. The basic target price for each grain applies to a national standard quality at wholesale level in the marketing centre of the largest national deficit area. During the transition period, each member country sets its own basic target prices within a range agreed upon by the EEC Council. During the first years of the transition period, agreement on price policy must be reached unanimously; however, a qualified majority will suffice from 1966 onwards. By the end of the transition period, there is to be only one basic target price for each of the principal home-produced grains throughout the Community, with a series of derived target prices in the main areas of surplus production providing for the movement of surplus grain to deficit areas.

8. Intervention prices, which represent the basic guarantee to producers within the EEC, are established at a level not less than 5 per cent above nor more than 10 per cent below the respective target prices. The authorities are obliged to buy any grain offered to them at intervention prices, and are authorized to sell this grain in the domestic market at a price not lower than the target price, or export it at world market prices.

9. Threshold prices apply to the common standard quality and are related to target prices in such a way as to ensure that imported grains will be sold in the marketing centre of the largest deficit area at prices corresponding to the basic target prices established for that area. Threshold prices are also fixed for those grains for which no target prices exist, in an appropriate relationship to the threshold prices of the other grains.

10. The protection of the domestic price level against lower-priced imports is achieved by a system of variable import levies. These levies make up the difference between the free frontier price, in the case of imports from other member countries, or the c.i.f. price, in the case of imports from third countries, and the threshold price at which imported grain is allowed to enter EEC countries. On the basis of current price information, the Commission determines daily the most favourable import price for the standard quality of each grain, which then serves as a basis for the calculation of the levies. In intra-Community trade, the levies are reduced by a lump-sum deduction (montant forfaitaire).

11. Export refund. In order to enable exports to be made to countries outside the Community at world market prices, the price difference may be covered by a refund, which in principle should be no higher than the amount of the levy applied to imports from these countries at the date of exportation. In case a serious disruption of the market threatens to develop during the transition period in any member country, a special clause allows appropriate safeguard measures to be taken.

Recent developments in trade

12. The replacement of the national policies of EEC member countries by the common grain policy has been achieved apparently without major disturbance, and the new system is now in operation. Some improvements, e.g., the provision for an advance determination of the import levy in intra-Community trade to facilitate forward buying, have been introduced during the year.

13. The only country which has so far had to invoke the safeguard clause has been Italy. During 1962/63, this country had been allowed to retain the government import monopoly for wheat, but when the trade passed into private hands on 1 July 1963 there was a danger of the Italian market for durum wheat being disrupted by the substitution, in pasta production, of some imported wheats other than durum for home-grown durum varieties. Italy has therefore been permitted to impose a supplementary levy on a number of imported wheats competing with durum in the manufacture of pasta in order to bring their landed costs nearer to the durum threshold price.

14. So far, the implementation of the EEC grain policy represents a change of policy instruments rather than a change in the degree of protection afforded to domestic grain production in the six countries. In 1962/63, grain prices in member countries were kept at virtually the same levels as the previous year, and for 1963/64 only minor steps have been taken toward the goal of a common price level: the target price range for coarse grains has been slightly narrowed, and small price adjustments in some countries have been made accordingly, partly in connexion with changes in the national quality standards.

15. The application of a single set of policy measures in all member countries makes it easier to compare the degree of protection of domestic grain production in each of them. The size of the variable import levies, for example, gives a good indication of the relationship of domestic prices to world market prices in the individual countries as well as of the differences existing in the price levels of individual grains within the Community at the beginning of the transition period (see Table 3).

16. No agreement has yet been reached on the fundamental question of the eventual common price...
level for grains. As an important step in this direction, the Commission is urging member countries to agree upon common price relationships between grains, which could be established before prices are brought to one level. The Commission favours a narrowing of the spread between wheat and coarse grain prices, thus encouraging a switch from wheat acreage into coarse grains; this is held highly desirable in view of the tendency toward excess production of soft wheat within the Community and the growing needs for feed grains.

17. An assessment of the effect of the common grain policy, as so far implemented, on international trade in 1962/63 is rendered difficult by the coincidence of exceptionally large wheat and barley crops in the Community, which were 30 and 60 per cent above the 1950-1961 average respectively in 1962. The unusually large stocks which had been accumulated by some net importing countries of the Community during 1961/62 also influenced trade in 1962/63. In fact, these two factors can largely explain not only the lower volume of the EEC's grain imports in the first nine months of 1962/63, but also the decline in the share of intra-Community trade in total grain imports of member countries, since barley and soft wheat account for the bulk of the intra-trade in grains (see Table 4). On balance, there is no evidence that the introduction of the common policy resulted in any significant change in the pattern of trade between the EEC and third countries, with the exception of trade in flour. EEC flour imports from third countries declined appreciably, following the adoption of special measures for the protection of the milling industry.

### Longer-term prospects

18. Assessment of the longer-term outlook for EEC requirements of grains depends on the assumptions made about consumption, production and price trends within the Community. On the assumption of a population growth of 0.7 per cent per annum, an annual increase in private per capita consumption expenditures of 4 per cent and no changes in prices, recent EEC projections for 1967-71 estimate that direct consumption of grains would remain unchanged at the 1957-59 level, and that feed and industrial uses would rise by over 12 million tons, or 37 per cent, over the 12-year period. On the alternative assumption of an annual rise in per capita consumption expenditures of 4.9 per cent, the direct food use of grains would decline slightly, but feed and industrial uses would rise by 42 per cent, resulting in an increase in total grain consumption of almost 14 million tons, or 25 per cent, over the whole period. Production, on the other hand, may increase by 13 million tons, of which over 5 million tons would be wheat, the basic assumptions being unchanged producer prices, no change in wheat and coarse grain acreages, and some slackening in the recent rate of increase in yields. This would lower the net import requirements of the Community in grains from 9.2 million tons in 1957-59 to 8.4 million tons in 1969-71, on the low income-growth assumption, or would lead to a rise in these requirements to just under 10 million tons if the high income-growth assumption is used.

19. Since it is the declared aim of the EEC's agricultural policy to establish common prices for grains throughout the Community by 1970, the assumption of unchanged prices and price relationships is unrealistic. According to the proposed criteria for target price decisions, prices are to be set at such levels as to (1) secure adequate levels of farm income, (2) adjust production to consumption, (3) assist in the development of the whole economy, including foreign trade, and (4) ensure that consumers are supplied at reasonable prices—criteria which to some extent seem conflicting. While it is hard to judge what the eventual common price level for grains will be, it seems reasonable to assume that the movement toward the common price level will involve price decline in high-price countries (e.g., the Federal

### Table 3
Average levies imposed on grains imported from third countries, August 1962 to March 1963 (In percentage of c.i.f. prices)

<table>
<thead>
<tr>
<th>Soft wheat</th>
<th>Rye</th>
<th>Barley</th>
<th>Oats</th>
<th>Maize</th>
<th>Sorghum</th>
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<tr>
<td>Belgium</td>
<td>75</td>
<td>30</td>
<td>49</td>
<td>26</td>
<td>47</td>
</tr>
<tr>
<td>Germany (F.R.)</td>
<td>111</td>
<td>85</td>
<td>89</td>
<td>63</td>
<td>97</td>
</tr>
<tr>
<td>France</td>
<td>70</td>
<td>32</td>
<td>41</td>
<td>21</td>
<td>61</td>
</tr>
<tr>
<td>Italy</td>
<td>94</td>
<td>57</td>
<td>7</td>
<td>4</td>
<td>7</td>
</tr>
<tr>
<td>Netherlands</td>
<td>68</td>
<td>14</td>
<td>39</td>
<td>26</td>
<td>30</td>
</tr>
</tbody>
</table>

### Table 4
Recent trends in EEC imports of grains

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<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Wheat*</td>
<td>5 822</td>
<td>5 190</td>
<td>6 237</td>
<td>3 578</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Total imports of EEC</td>
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<td></td>
<td></td>
<td></td>
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<td>of which from:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>other EEC</td>
<td>681</td>
<td>714</td>
<td>637</td>
<td>277</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>other countries</td>
<td>5 141</td>
<td>4 476</td>
<td>5 600</td>
<td>3 301</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(Percentage)</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Coarse grains</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total imports of EEC</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>of which from:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>other EEC</td>
<td>12</td>
<td>14</td>
<td>10</td>
<td>8</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>other countries</td>
<td>88</td>
<td>86</td>
<td>90</td>
<td>92</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(Percentage)</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>


Republic of Germany) and price increases in low-price countries (e.g., France). The EEC projection study quoted above estimates that the net result of such a move would be likely to be an over-all increase in production, since little or no fall in production is expected to result from the price decline in high-price countries, while a price rise in France, particularly if substantial, could lead to a marked re-expansion of acreages and a considerable increase in grain output. The study estimates that if an increase in French grain prices of over 20 per cent were to occur, over 32 million tons of grains might be produced in France by 1970, as compared with 26.6 million tons if prices and acreage were kept unchanged. This would imply a steep decline in the Community's import requirements from 9.2 million tons in 1957-59 to 4.5 or 2.9 million tons in 1969-71, depending on whether the high or low income-growth assumption is used.

20. This example demonstrates that future EEC net import requirements of grains will largely depend on the level at which the common grain prices are finally fixed. A change in the price relationships between wheat and coarse grains, on the other hand, aimed at altering grain production patterns in the Community, is not likely to have marked effects on net import requirements of grains as a whole, but would probably rather result in a change in the percentage shares of wheat and coarse grains in the grain rations fed to animals.

MEAT AND EGGS

I. MEAT

Place of the Community in world production and trade

21. Meat production in the EEC at present totals 9 million tons (all meats including edible offals), or about 14 per cent of the world total (excluding mainland China). In the post-war period, production in the EEC countries combined has expanded much faster than in the United Kingdom and the United States, the world's major meat import markets, the annual rate of growth of meat production in the EEC between 1950 and 1961 being 4.7 per cent (of which beef 5.7, veal 1.6, pig meat 4.7, and poultry meat 7.7 per cent). The degree of self-sufficiency for all meat is around 96 per cent. The Netherlands is the only significant net exporter (pig meat and poultry). France is self-sufficient, but plans to become a net exporter of considerable significance particularly in beef. Among the importing countries, the share of imports in total supplies is largest in Italy.

22. In 1962, the c.i.f. value of gross imports of live animals, meat and meat preparations into the member countries of the Community was $704 million (Table 5). One-third was supplied by members. Non-members in Western Europe, largely Denmark, accounted for another third. The remaining major suppliers were eastern Europe with 12 per cent (live animals, mainly pigs and poultry), the United States with 11 per cent (poultry and offals), and South America with 10 per cent (frozen beef for processing). In the same year, total gross exports of the member countries were $442 million, with importers within the Community taking slightly more than a half. The major outside markets were: other countries in western Europe, mainly the United Kingdom as an outlet for prepared and canned meat; the United States (canned pig products); Africa (largely exports from France to Algeria), and eastern Europe and the USSR (mainly exports of French beef from stocks accumulated during 1961).

23. Whereas the bulk of imports from non-member countries consists of live animals for slaughter, carcass beef and slaughtered poultry, the major part of exports to third countries consists of prepared and canned meats with high unit values.

24. The pattern of trade in 1962 was broadly the same as in earlier years. A major exception was the relatively large exports to Eastern Europe and the USSR. In recent years, there has not been any marked tendency for imports from third countries to rise except those of poultry meat. On the other hand, trade between the members had already tended to grow before the new regulations entered into force at the end of July 1962, as import duties and quotas had been adjusted to give member countries certain preferences.

The EEC's policy for livestock and meat

25. The basic considerations of the EEC livestock and meat policies may be summarized as follows:

26. Slaughter animals represent an important part of farmers' earnings. It is therefore necessary to maintain prices for livestock and meat at such levels as to secure the profitability of this important sector of agriculture. Imports must be prevented from becoming so large as to cause prices of internal prices below the levels considered to be appropriate for Community producers. For pig meat and poultry, the import duties and quantitative restrictions that were formerly used to achieve this aim have now been replaced by a system of levies and lock-gate prices. Under the new import regime, imports take place only if prices in the importing country rise sufficiently above the threshold level set by the sum of lock-gate price plus levies, to make import operations attractive. In such cases, there is no discrimination between exporters outside the Community.

Policy for pig and poultry meat

27. Common Market regulations on trade in live and slaughtered pigs and poultry meat have been in operation since the end of July 1962. Those relating to other pig products (pork cuts, offals, fatbacks, lard, prepared and canned pig meat and sausage) came into effect on 2 September 1963 for a trial period until the end of June 1964. The levies on these products are based on those for slaughtered pigs, by applying a coefficient which reflects the weight-value ratios

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4 On the basis of the threshold prices in force in October 1962, German prices were above French prices by 27 per cent for wheat, 37 per cent for barley and 26 per cent for maize.

5 The situation in Italy in 1960/61 can be considered an exception. In this period, imports of pigs and pig meat were prohibited and those of beef were reduced by import restrictions.
between the respective parts and the whole carcass in the importing country. (For hams, for instance, the levy on imports from third countries in the Federal Republic and Italy is 28 and 77 per cent respectively above that for slaughtered pigs.) For cattle and beef, it was decided that agreement on the regulations should be reached before the end of 1963 so that the regulations would enter into force in the first quarter of 1964.  

28. As feedgrains are the major cost factor in the production of pig meat and poultry, the first element of the levies is designed to compensate for the difference between feedgrain prices in the importing and exporting country. The second element offsets the disparities in other factors in costs of production, and the third is applied only to imports from non-members, in order to give producers of member countries the protection envisaged in the Rome Treaty.

29. Lock-gate prices are operative in principle only in trade with non-members. Thus far, an exception has been made with regard to pig meat by establishing lock-gate prices for imports from member countries as well: these will be applied during the transition period extending to end-1969. The lock-gate prices are calculated on the basis of feedgrain prices in world markets and a feed conversion factor considered to be representative for exporting third countries. When offers from third countries are lower than the lock-gate price, a supplementary levy has to be paid to cover the difference. This supplementary levy is to be applied in principle to imports from all third countries, as in the case of chickens (broilers), for which a uniform supplementary levy on imports from all third countries was introduced in November 1962.

30. Under the lock-gate prices that were established, the lowest possible unit cost for the imported product has been very near the average price in internal wholesale markets during the three years preceding the new regime.

31. While the examples which follow are based on the levies and lock-gate prices for August-September 1962, the picture would not change materially if the respective data for the subsequent periods had been chosen, as the changes have only been small.

32. In the first two months of the new regime (August-September 1962), the minimum level at which live pigs from third countries could enter the Federal German market was DM254 per 100 kg. (lock-gate price plus levies), while the corresponding figure for imports from member countries was DM250.9. By contrast, the average import price in 1961, duty paid, was about DM215. The increase in the import unit cost under the new regime was thus about 18 per cent for imports from third countries, and 17 per cent for those from member countries.

33. The former duties and the levies fixed for August-September 1962 in the two main import markets of the Community, the Federal Republic and Italy, are compared in the following hypothetical examples (Table 6). The first assumes a c.i.f. price for live pigs of DM195 (equal to Lire 30,420 per 100 kg.) which was the average for the whole Community in 1961. The second assumes a c.i.f. price of DM167 (equal to Lire 26,094) which was the lock-gate price.

### Table 5

<table>
<thead>
<tr>
<th>Pattern of EEC trade in 1962: Live animals, meat and meat preparations</th>
</tr>
</thead>
<tbody>
<tr>
<td>(In millions of US dollars)</td>
</tr>
<tr>
<td>Total EEC</td>
</tr>
<tr>
<td>Total imports</td>
</tr>
<tr>
<td>From EEC</td>
</tr>
<tr>
<td>From Other areas</td>
</tr>
<tr>
<td>Other western Europe</td>
</tr>
<tr>
<td>Eastern Europe</td>
</tr>
<tr>
<td>North America</td>
</tr>
<tr>
<td>Latin America</td>
</tr>
<tr>
<td>Other</td>
</tr>
<tr>
<td>Total imports (+) or exports (—)</td>
</tr>
</tbody>
</table>

---

8 Under the proposals submitted by the EEC Commission in May 1962, the main instruments of the common policy in the beef sector are to be import duties and lock-gate prices. These are to raise the unit cost of imports to the level of prices in the importing countries. For certain beef products, such as offals, prepared and canned beef, and tallow, lock-gate prices will not be used, but in addition to import duties, trade with third countries will also be subject to a system of import licences, the issuing of which may be suspended if imports threaten to disrupt the markets for these products in the importing countries. The system of import licences would also apply to imports of frozen beef from third countries.
in August-September 1962 (any lower c.i.f. price would be offset by the supplementary levy).

34. Although, as mentioned, quantitative restrictions have been abolished in principle, it appears that in either case the new regime tends to discourage imports. If exporting countries were to maintain the c.i.f. price at DM195, the approximate level prevailing before August 1962, the unit cost to importers would rise from DM215.3 to DM282 and this increase would be reflected in wholesale and retail prices of pig meat from imported animals. With foreign competition thus lessened, prices of domestic pigs and pig meat would also rise, encouraging domestic production, and to some extent, discouraging consumption. If exporting countries were, on the other hand, to reduce the c.i.f. price to the lock-gate level of DM167, there would still be an increase in wholesale and retail prices of imported pig meat (though smaller than in the first example).

35. In the case of poultry meat too, the new instruments have tended to raise the cost of imported products. In the Federal Republic, the world’s largest importer, the charges on imports of chickens from third countries have more than doubled. The lock-gate price for chickens (DM2.94 or Lire 459.4) was established at a relatively high level, above the average import price of recent years. The preference in favour of member countries, to which the lock-gate price does not apply, is considerably greater than in the case of pig meat; while the levies on imports of chicken from member countries amount to DM0.63 per kg., the total of basic and supplementary levies applying to third countries is DM1.10-1.15.

36. The effects of the former duties and present levies are shown in the following hypothetical examples of Table 7.

37. It should be noted that with the beginning of the new import regime, the Federal Republic abolished its national equalization payments to producers (this had served as compensation for the difference between feedgrain prices in the internal market and in exporting countries and is now more or less covered by the first element of the levy). However, with the termination of the equalization payments the price to consumers for domestic chickens was bound to rise, and since the unit cost of imported chickens is also considerably higher than earlier, market prices have tended to increase in the Federal Republic.

*Trade in pig meat and poultry under the new regulations*

**Pig meat**

38. Comparing total gross imports of pigs and pork into the EEC countries during the eight or nine months from August 1962 with the same period a year earlier, the most striking feature is a sharp decline in imports of live pigs from 524,000 to 376,000 head. Although Italy’s imports more than doubled, and France also imported more, these increases were not sufficient to offset a reduction of 56 per cent in the imports of the Federal Republic. The decline mainly affected third countries, which are the main suppliers of live pigs. At the same time, imports of pork, for which the exporting countries in the EEC are the main suppliers, increased markedly. In the period under review, total imports of pork and live pigs (in terms of carcass weight) into the Community were about 13 per cent larger than the year before, but the share of third countries in this total declined from 48 to 40 per cent. The relative decline in trade with third
countries may be attributed partly to reduced supplies in some importing countries belonging to this group.

39. Trade was influenced strongly by divergent developments in production in the two major importing countries of the Community. In the Federal Republic, pig meat production during August 1962-April 1963 was 6 per cent larger than a year earlier, and imports would probably also have declined under the former régime. The decline in total imports (pork and the carcass weight equivalent of live pigs) was about 10 per cent, but the share of third countries was reduced from 54 to 31 per cent. The major part of live pig imports from third countries consisted of live sows from Denmark, to which lower levies and lock-gate prices (12 per cent less than for other pigs) are applied.

40. The Federal Republic's imports of live pigs during January-May 1963 were almost 80 per cent smaller than a year earlier, while the decline in its pork imports was about 25 per cent. This reduction reflected a fall in domestic prices to the minimum level at which pigs from third countries could be imported, or even slightly below it.

41. In Italy, on the other hand, pig meat production has remained unchanged in recent years. In the second half of 1962 prices started to rise and reached high levels in the first few months of 1963, considerably above the threshold set by the lock-gate prices plus levies. Total imports of live pigs (in carcass weight equivalent) and pork in August 1962-March 1963 were about 120 per cent larger than a year earlier, but here too there was a decline in the share of third countries, from 74 to 67 per cent. It appears that a considerable proportion of pork imports consisted of pork cuts, to which the new import regulations did not yet apply.

Poultry meat

42. The Federal Republic accounted for 97 per cent of the EEC's total imports of poultry meat in 1962, and for two-thirds of the world total. In the first seven months of 1962, imports were 78 per cent higher than the previous year, with a heavy increase in receipts from the United States.

43. In the first nine months of the new import regime, the Federal Republic's imports were more than 30 per cent less than the year before. This decline affected third and member countries equally, since their respective shares remained virtually unchanged in comparison with August 1961-April 1962. However, the period to about the end of 1962 must be sharply differentiated from the early months of 1963. In the last five months of 1962, the Federal Republic's imports were one-third less than a year earlier, but this must in part be attributed to the large stocks which had been accumulated by the trade in the month or two before the new import regulations became effective.

44. Developments in the first five months of 1963 differed considerably: percentagewise, the decline in the Federal Republic's total imports for the previous year was about the same as in the previous five months, i.e., 31 per cent, but imports from third countries were halved, and their share in the total declined from 66 per cent in the first five months of 1962 to 48 per cent in the same period of 1963. The

### Table 8

<table>
<thead>
<tr>
<th>Country</th>
<th>Calendar Year</th>
<th>Quantity (1000 head)</th>
<th>EEC (Per cent)</th>
<th>Other countries* (Per cent)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total EEC</td>
<td>1961</td>
<td>810</td>
<td>25</td>
<td>75</td>
</tr>
<tr>
<td></td>
<td>1962</td>
<td>577</td>
<td>27</td>
<td>73</td>
</tr>
<tr>
<td>France</td>
<td>1961</td>
<td>102</td>
<td>61</td>
<td>39</td>
</tr>
<tr>
<td></td>
<td>1962</td>
<td>42</td>
<td>74</td>
<td>26</td>
</tr>
<tr>
<td>Germany (F.R.)</td>
<td>1961</td>
<td>676</td>
<td>21</td>
<td>79</td>
</tr>
<tr>
<td></td>
<td>1962</td>
<td>391</td>
<td>21</td>
<td>79</td>
</tr>
<tr>
<td>Italy</td>
<td>1961</td>
<td>32</td>
<td>—</td>
<td>100</td>
</tr>
<tr>
<td></td>
<td>1962</td>
<td>145</td>
<td>30</td>
<td>70</td>
</tr>
<tr>
<td>Belgium-Luxembourg</td>
<td>1961</td>
<td>219</td>
<td>99</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>1962</td>
<td>222</td>
<td>81</td>
<td>19</td>
</tr>
<tr>
<td>France</td>
<td>1961</td>
<td>78</td>
<td>98</td>
<td>2</td>
</tr>
<tr>
<td></td>
<td>1962</td>
<td>45</td>
<td>97</td>
<td>3</td>
</tr>
<tr>
<td>Netherlands</td>
<td>1961</td>
<td>39</td>
<td>99</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>1962</td>
<td>19</td>
<td>39</td>
<td>61</td>
</tr>
</tbody>
</table>

* None of this trade was with the associated states.
reduction was the largest in imports from the United States (some 70 per cent), whereas imports from Denmark were only 13 per cent less. It is estimated that the shortfall in imports was offset to a considerable extent by larger home production.

II. EGGS

Place of the Community in world production and trade

45. The EEC is the world's most important trading area for eggs, including the two largest importing countries, the Federal Republic of Germany and Italy, and the largest exporter: the Netherlands. In the post-war period, production of eggs in the EEC countries has expanded strongly, and is now about 66 per cent above that of 1948-52. The growth in production has been greatest in the Netherlands (170 per cent), followed by the Federal Republic, where it has nearly doubled. In the latter country, the introduction in 1956 of equalization payments to producers to compensate for the difference between the feedgrain prices on the internal market and in exporting countries was reflected in a 50 per cent expansion of production in six years. However, imports into the EEC area as a whole from outside sources have risen still more rapidly than production.

Per capita consumption in the area is now more than 12 kg. per annum, about 65 per cent above the level of 1948-52 and 45 per cent higher than before the war. The degree of self-sufficiency in the EEC as a whole is now about 91 per cent.

46. During 1959-61, the c.i.f. value of gross imports of eggs in the shell and egg products into the EEC was $213 million. The share of third countries was 47 per cent, but declined to 42 per cent in 1962. For egg products alone, third countries accounted for 5 per cent of imports, but this item represented only one-tenth of the above total.

47. In the last two years, the main outside suppliers of eggs and egg products have been eastern European countries, with Poland as the major exporter, and other countries in western Europe, especially Denmark, Israel, Argentina and Morocco were the most significant non-European suppliers.

48. About 90 per cent of exports from the surplus countries within the EEC (Netherlands and Belgium) go to member countries, Switzerland and the United Kingdom being the major outlets for the remainder.

The EEC's policy for eggs

49. The new regulations governing imports of eggs and egg products into the EEC member countries came into force on 30 July 1962, simultaneously with those for pig meat and poultry. The same basic considerations which determined the shaping of the latter regulations also applied to eggs and egg products: as proceeds from egg production are an important part of producer incomes, it is therefore necessary to assure adequate returns to this sector of farm production, to reduce price fluctuations as much as possible, and to maintain a proper balance between supply and demand within the Community.
TABLE 10
Poultry: Major trade patterns of EEC countries in selected periods, 1961 and 1962

<table>
<thead>
<tr>
<th>Calendar year</th>
<th>Eight to ten months beginning July or August of year stated</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Percentage imported from or exported to</td>
</tr>
<tr>
<td></td>
<td>Quantity (1000 m.t.)</td>
</tr>
<tr>
<td>Imports</td>
<td></td>
</tr>
<tr>
<td>Total EEC</td>
<td>1961</td>
</tr>
<tr>
<td></td>
<td>1962</td>
</tr>
<tr>
<td>Germany (F.R.)</td>
<td>1961</td>
</tr>
<tr>
<td></td>
<td>1962</td>
</tr>
<tr>
<td>Italy</td>
<td>1961</td>
</tr>
<tr>
<td></td>
<td>1962</td>
</tr>
<tr>
<td>Exports</td>
<td></td>
</tr>
<tr>
<td>Total EEC</td>
<td>1961</td>
</tr>
<tr>
<td></td>
<td>1962</td>
</tr>
<tr>
<td>Belgium-Lux.</td>
<td>1961</td>
</tr>
<tr>
<td></td>
<td>1962</td>
</tr>
<tr>
<td>France</td>
<td>1961</td>
</tr>
<tr>
<td></td>
<td>1962</td>
</tr>
<tr>
<td>Netherlands</td>
<td>1961</td>
</tr>
<tr>
<td></td>
<td>1962</td>
</tr>
</tbody>
</table>

* Practically none of this trade was with the associated States.

50. The main instrument for the achievement of these aims is a system of levies applied to trade within the Community and with third countries: these replace the national import duties and quotas previously in force. Since the Federal Republic, the world's largest importer, had abolished quantitative restrictions on imports from OEEC countries in the early fifties, the EEC egg trade, taken as a whole, had been far less affected by quantitative restrictions than the trade in pig meat. As with other livestock products for which grains are the main raw material, the first element of the levies is designed to compensate for the difference between feedgrain prices in the importing and exporting country, the second offsets other disparities in production costs, and the last, which is applied only to third countries, provides the preference to member countries. A further instrument to protect internal markets is the lock-gate price which, as with poultry,

TABLE 11
Pattern of EEC trade in 1962: Eggs and egg products
(In millions of US dollars)

<table>
<thead>
<tr>
<th>Total EEC</th>
<th>France</th>
<th>Germany (F.R.)</th>
<th>Italy</th>
<th>Belgium-Luxembourg</th>
<th>Netherlands</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total imports</td>
<td>183.1</td>
<td>6.1</td>
<td>130.1</td>
<td>45.3</td>
<td>1.2</td>
</tr>
<tr>
<td>From EEC</td>
<td></td>
<td>106.0</td>
<td>5.6</td>
<td>87.1</td>
<td>12.6</td>
</tr>
<tr>
<td>From Other areas</td>
<td></td>
<td>77.1</td>
<td>0.5</td>
<td>43.0</td>
<td>32.7</td>
</tr>
<tr>
<td>Eastern Europe</td>
<td></td>
<td>31.4</td>
<td>0.2</td>
<td>12.8</td>
<td>18.2</td>
</tr>
<tr>
<td>Other western Europe</td>
<td></td>
<td>25.3</td>
<td>0.1</td>
<td>21.6</td>
<td>3.5</td>
</tr>
<tr>
<td>Latin America</td>
<td></td>
<td>4.5</td>
<td>—</td>
<td>2.2</td>
<td>2.3</td>
</tr>
<tr>
<td>North America</td>
<td></td>
<td>3.7</td>
<td>—</td>
<td>3.0</td>
<td>0.4</td>
</tr>
<tr>
<td>Other</td>
<td></td>
<td>12.2</td>
<td>0.2</td>
<td>3.4</td>
<td>8.3</td>
</tr>
<tr>
<td>Total exports</td>
<td>122.0</td>
<td>1.2</td>
<td>0.5</td>
<td>0.4</td>
<td>21.2</td>
</tr>
<tr>
<td>To EEC</td>
<td></td>
<td>108.5</td>
<td>0.6</td>
<td>0.2</td>
<td>0.1</td>
</tr>
<tr>
<td>To Other areas</td>
<td></td>
<td>13.5</td>
<td>0.6</td>
<td>0.4</td>
<td>0.3</td>
</tr>
<tr>
<td>Other western Europe</td>
<td></td>
<td>9.7</td>
<td>0.3</td>
<td>0.3</td>
<td>—</td>
</tr>
<tr>
<td>Africa</td>
<td></td>
<td>2.8</td>
<td>0.3</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Eastern Europe</td>
<td></td>
<td>0.5</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Other</td>
<td></td>
<td>0.5</td>
<td>—</td>
<td>—</td>
<td>0.3</td>
</tr>
<tr>
<td>Net imports (+) or exports (−)</td>
<td>+61</td>
<td>+5</td>
<td>+130</td>
<td>+45</td>
<td>−20</td>
</tr>
</tbody>
</table>
only affects imports from third countries. For August-September 1962 the lock-gate price was established at $0.5025 per kg. (equal to 11.55 Pfennig per egg), which is about 5 per cent less than the average import unit value for the Community as a whole in 1960 and 1961.

51. The incidence of the levies is considerably higher than that of the former duties. This is shown by the following example, which is based on the assumption that prices for eggs from third countries were at the level of the lock-gate price, both before the entry into force of the new regulations and during August-September 1962.

52. On the above assumption, the effect of the levies was an increase of 24 per cent in the import unit cost of eggs from third countries in the Federal Republic, whereas in Italy, because of the lower levy, the increase was only 9 per cent.7

53. With the coming into force of the new regulations, the Federal Republic abolished its equalization payments to producers because the compensation for the difference in feedgrain prices was thenceforth provided by the first element of the levy. In the absence of equalization payments, the consumer price for domestic eggs would have to rise. Also, eggs from abroad cannot enter the Federal German market under the minimum import unit cost, which is about 16 Pfennig per egg. Thus the general level of egg prices has risen, and in May 1963 the price for eggs (ex collecting station, Bavaria) was 16.1 Pfennig, or 22 per cent above the May average for the preceding three years.

Trade in eggs under the new regulations

54. During the first eight or nine months' operation of the new import regulations, gross imports of eggs into the EEC countries were 85,000 tons or about one-third less than in the same period a year earlier.

Imports from third countries were down by half and their share in the total dropped to 27 per cent, compared with 36 per cent during August 1961-March/April 1962. In the above period, the Federal Republic's imports declined by 36 per cent and Italy's by 34 per cent. The reduction of the share of third countries was particularly pronounced in Italy, from 76 to 46 per cent.

55. However, it should be noted that the decline in EEC imports in the above period reflects to a considerable extent two factors unrelated to the new policy which affected production and exportable supplies in 1962/63. Under the impact of very low prices in early 1962, laying flocks were reduced in certain exporting countries, e.g., the Netherlands and Denmark, which resulted in lower production and exports. Supplies were furthermore reduced by the long, severe winter in eastern Europe. A general shortage of exportable supplies in Europe during the past winter therefore appears to have been an important factor in the sharp reduction in the imports of the Federal Republic and Italy. In the former, for instance, prices during the winter months were at very high levels, considerably above the minimum import unit cost, and trade might certainly have been larger if more eggs had been available.

56. In the first five months of 1963, the Federal Republic's imports fell by 75,000 tons, or more than half compared with the previous year. The share of imports from third countries declined slightly from 34 to 32 per cent, the largest declines being in receipts from Denmark, Poland, Romania and Sweden. Imports from Israel, one of the minor suppliers of the German market, disappeared almost entirely. But it is also interesting to note that during January-May 1963, exports from the Netherlands to the Federal Republic were 50 per cent less than the year before, although this reduction was partly due to larger shipments to other markets such as Austria, Switzerland and the United Kingdom.

57. A further element in the situation was production in the Federal Republic, which, having been below that of the previous year in the first two months of 1963, expanded in the following months and was more than 5 per cent larger in January-May than in the same period of the previous year. However, this increase covered only a relatively small part of the shortfall in imports.

58. The abnormal supply situation during the long winter of 1962/63 makes it difficult to assess the part played by the new import regulations in the large decline in the two countries' imports. An accurate assessment will only be possible on the basis of statistical information for a longer period of more or less normal conditions.

Longer-term prospects for meat and eggs

59. Production of meat and eggs in the EEC area has been expanding at high rates, with a steady growth in consumer incomes accompanied by improved methods of production. This expansion has been favoured by agricultural and trade policies which, prior to the common policies, supported and protected

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7 The levies for egg products are fixed by multiplying those for eggs in the shell by certain coefficients, as for instance 1.14 for liquid whole eggs, and 4.31 for dried whole eggs. The coefficients used in the calculation of the lock-gate prices for egg products are higher, to provide protection for the domestic processors.
TABLE 13
Eggs in the shell: Major trade patterns of EEC countries in selected periods, 1961 and 1962

<table>
<thead>
<tr>
<th>Calendar year</th>
<th>Eight to ten months beginning July or August of year stated</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Percentage imported from or exported to</td>
</tr>
<tr>
<td></td>
<td>Quantity (000 m.t.)</td>
</tr>
<tr>
<td>Imports</td>
<td></td>
</tr>
<tr>
<td>Total EEC</td>
<td>1961</td>
</tr>
<tr>
<td></td>
<td>1962</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>France</td>
<td>1961</td>
</tr>
<tr>
<td></td>
<td>1962</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>Germany (F.R.)</td>
<td>1961</td>
</tr>
<tr>
<td></td>
<td>1962</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>Italy</td>
<td>1961</td>
</tr>
<tr>
<td></td>
<td>1962</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>period</td>
<td></td>
</tr>
<tr>
<td>Exports</td>
<td></td>
</tr>
<tr>
<td>Total EEC</td>
<td>1961</td>
</tr>
<tr>
<td></td>
<td>1962</td>
</tr>
<tr>
<td>Belgium-Lux.</td>
<td>1961</td>
</tr>
<tr>
<td></td>
<td>1962</td>
</tr>
<tr>
<td>Netherlands</td>
<td>1961</td>
</tr>
<tr>
<td></td>
<td>1962</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>

* Practically none of this trade was with the associated States.

home production. Among the many measures adopted, quantitative import controls played a significant part. While the new import regulations do not in principle include quantitative controls, they have raised the minimum unit costs of imported products considerably above the former levels, bringing them very near to the prices formerly prevailing in the internal wholesale markets.

60. FAO projections for 1970, covering the major categories of meat, indicate that production in the Community may either keep step with growing demand, or slightly outpace it. The degree of self-sufficiency may, therefore, remain either as at present or may increase.

61. Although developments may not of course be exactly as indicated by the projections, which rely on certain fixed assumptions, it can be assumed that production in the EEC will continue to expand at high rates, and that policies will be aimed at maintaining or even increasing the share of home production in the Community market.

62. Output of products for which grain is a major raw material (pig meat, poultry and eggs) can grow rapidly, as a result of the production techniques already applicable in this field. The limiting factors are demand and grain supplies. In Belgium and the Netherlands, for instance, poultry meat production in 1961 was 2.6 times and 2.3 times, respectively, as large as six years before. Moreover, the expansion of world trade in poultry meat up to 1962 was mainly due to the fact that the Federal Republic had abolished quantitative import controls on all suppliers except those of eastern Europe. Imports entered freely, subject only to the import duty. Under the new system, competition from abroad is lessened, and home production is stimulated.

FATS AND OILS

Place of the Community in world trade

63. The six member countries of the EEC consume about 5 million tons of fats and oils per year (including butter). Since Europe's climate is not well suited to the intensive production of oilseeds, the EEC's production consists mainly of animal fats (butter and slaughter fats) while those of vegetable and marine origin are mostly imported, olive and rapeseed oils being the chief exceptions.

Table 14

EEC—Projected consumption, net imports (beef, veal, pig meat, poultry, mutton and lamb), and self-sufficiency by 1970

<table>
<thead>
<tr>
<th>Period</th>
<th>Consumption (Million metric tons)</th>
<th>Net imports</th>
<th>Self-sufficiency (Per cent)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1957/58-1959/60</td>
<td>7.36</td>
<td>0.3</td>
<td>96</td>
</tr>
<tr>
<td>1970 (low income assumption)</td>
<td>10.38</td>
<td>0.1</td>
<td>99</td>
</tr>
<tr>
<td>1970 (high income assumption)</td>
<td>10.94</td>
<td>0.4</td>
<td>96</td>
</tr>
</tbody>
</table>

* A striking example of the effects which support to home production can have on imports is that of the United Kingdom egg market: supported by the price guarantee system, egg production in 1961 was nearly 80 per cent higher than in 1948-52, and imports were 75 per cent less.
### Table 15

Pattern of EEC imports in 1962: Gross imports of fats, oils and oilseeds in terms of oil or pure fat content

(\textit{In thousands of metric tons})

<table>
<thead>
<tr>
<th></th>
<th>Total EEC</th>
<th>France</th>
<th>Germany (F.R.)</th>
<th>Italy</th>
<th>Belgium-Luxembourg</th>
<th>Netherlands</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>TOTAL IMPORTS</strong></td>
<td>3 025</td>
<td>658</td>
<td>1 085</td>
<td>528</td>
<td>215</td>
<td>539</td>
</tr>
<tr>
<td>From EEC</td>
<td>262</td>
<td>45</td>
<td>89</td>
<td>93</td>
<td>21</td>
<td>2</td>
</tr>
<tr>
<td>of which:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>France</td>
<td>54</td>
<td>—</td>
<td>17</td>
<td>13</td>
<td>21</td>
<td>2</td>
</tr>
<tr>
<td>Germany, F.R.</td>
<td>41</td>
<td>5</td>
<td>—</td>
<td>10</td>
<td>5</td>
<td>21</td>
</tr>
<tr>
<td>Italy</td>
<td>2</td>
<td>—</td>
<td>2</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Belgium-Luxembourg</td>
<td>47</td>
<td>22</td>
<td>9</td>
<td>3</td>
<td>—</td>
<td>12</td>
</tr>
<tr>
<td>Netherlands</td>
<td>117</td>
<td>17</td>
<td>60</td>
<td>7</td>
<td>33</td>
<td>—</td>
</tr>
<tr>
<td>From associated States and territories</td>
<td>521</td>
<td>372</td>
<td>59</td>
<td>24</td>
<td>35</td>
<td>31*</td>
</tr>
<tr>
<td>of which:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Senegal</td>
<td>244</td>
<td>244</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Congo (Leopoldville)</td>
<td>152</td>
<td>14</td>
<td>55</td>
<td>23</td>
<td>34</td>
<td>26*</td>
</tr>
<tr>
<td>Dahomey</td>
<td>31</td>
<td>28</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>3</td>
</tr>
<tr>
<td>French Polynesia</td>
<td>18</td>
<td>18</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Others</td>
<td>77</td>
<td>68</td>
<td>5</td>
<td>1</td>
<td>1</td>
<td>3</td>
</tr>
<tr>
<td>From other countries</td>
<td>2 242</td>
<td>241</td>
<td>937</td>
<td>470</td>
<td>121</td>
<td>472</td>
</tr>
<tr>
<td>of which:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>USA</td>
<td>658</td>
<td>30</td>
<td>265</td>
<td>158</td>
<td>36</td>
<td>169</td>
</tr>
<tr>
<td>Nigeria</td>
<td>208</td>
<td>28</td>
<td>90</td>
<td>5</td>
<td>32</td>
<td>53</td>
</tr>
<tr>
<td>Philippines</td>
<td>236</td>
<td>17</td>
<td>133</td>
<td>7</td>
<td>14</td>
<td>66</td>
</tr>
<tr>
<td>Argentina</td>
<td>157</td>
<td>17</td>
<td>96</td>
<td>20</td>
<td>3</td>
<td>20</td>
</tr>
<tr>
<td>Other Latin America</td>
<td>140</td>
<td>35</td>
<td>63</td>
<td>3</td>
<td>10</td>
<td>28</td>
</tr>
<tr>
<td>Others</td>
<td>843</td>
<td>114</td>
<td>290</td>
<td>277</td>
<td>26</td>
<td>137</td>
</tr>
</tbody>
</table>

**Notes.**—Butter, accounting for 64,000 tons (2 per cent of the total), is included in terms of fat content. Over half of the butter imports were from other member countries.

* Preliminary

64. The Community takes around 40 per cent of the volume of fats and oils of all kinds traded internationally; gross imports of the six countries were just over 3 million tons in 1962 (Table 15). Of this total, the Federal Republic of Germany took somewhat over one-third, followed by France with 22 per cent. Italy and the Netherlands each took about 17 per cent and Belgium-Luxembourg some 7 per cent.

65. A little less than 10 per cent of gross EEC imports in 1962 was from other members of the Community. The Netherlands does a substantial business in importing oilseeds from third countries and exporting the oil extracted from them, mainly to the Federal Republic. In addition to this and other intra-Community trade in oils derived from materials imported from non-members, there is also some trade among members in domestically-produced butter, lard, rapeseed oil and tallow.

66. The associated States are substantial exporters to France (chiefly of groundnut and oil palm products), but supplied less than 20 per cent of the total imports of the Community in 1962: the bulk of its imports (over 70 per cent in 1962) being taken from third countries, the most important of which is the United States, supplying principally soybeans and soybean oil, slaughter fats and cottonseed oil.

**The EEC’s proposals for fats and oils**

67. Proposals for a common fats and oils policy were first put forward by the Commission in July 1961, and, following extensive discussions, new proposals were made in July 1963. The major problems that had to be faced were the relationships to be established between vegetable and marine oils and fats and the dairy sector, the policy for olive oil, and the treatment of oils and oilseeds from the associated states. The proposals cover vegetable and marine oils and their products, such as margarine, oilseeds, oilseed cake and meal, and slaughter fats for non-food uses. Butter is covered in the proposals for dairy products; lard by the policy for pig meat; edible tallow by the proposals to be made for beef.

68. Like those of 1961, the proposals envisage a low-price policy for vegetable and marine oils and fats. Oilseeds and oilseed cake and meal would be admitted duty-free and without quantitative restrictions. Vegetable and marine oils would also be admitted without such restrictions, but, those from third countries other than the associated states would be subject to duties ranging from 5 to 15 per cent \textit{ad valorem}, depending on the degree of refining and on whether intended for food or non-food use. National internal taxes would be abolished by the end of the transition period, and there would be free movement across national boundaries within the Community. However, a Community-wide tax on vegetable and marine oils and products such as margarine would be levied at the retail level to raise revenues for financing measures of aid to producers in the Community and the associated states. The Commission suggests that a rate of DM0.1 (2.5 US cents) per kilogramme would
be sufficient. This would be equivalent to 3 to 5 per cent of the present level of retail prices of margarine in countries other than Italy, and would raise a total estimated amount of DM250 million ($62.5 million) annually.

69. The Commission examined the possibility of raising prices of fats and oils, including margarine, to a level that would reduce their competition with butter to a point where no support measures would be necessary for the dairy industry. It concluded, however, that the cost to consumers of such a policy might possibly amount to more than the subsidies already being received by the dairy industry.\(^9\) The Commission therefore expressly stated a preference for a low-price policy for oils and fats, but made supplementary proposals concerning the common dairy policy to guard against damage to dairy producers' incomes from possible future declines in margarine prices.

70. Olive oil is excepted from the general policy of low prices for fats and oils. In Italy, where nearly all the Community's olive oil is produced, the price has been maintained in recent years at levels averaging about 50 per cent above those in international markets. This has been accomplished by various measures, including heavy duties and taxes on competing oils. Under the Commission's original proposals in 1961 the price of olive oil in the Community would have been left to seek its own level, subject only to the protection of a 20 per cent import duty. It is now proposed to support the price of olive oil by establishing a threshold price for imports, enforced by a system of levies; by fixing an intervention price and purchasing olive oil offered at that price; and by the disposal at reduced prices of any surplus. In addition, as in the original proposals, a programme would be worked out in co-operation with the Italian Government to improve the production and marketing of olives and olive oil and economic conditions in olive-producing areas.

71. With regard to oils and oilseeds imported from the associated states, the Commission notes that the abolition of import duties on vegetable oils in accordance with the new 1963-67 Convention of Association will confer a preference as against oils and fats from third countries. The Commission proposes, moreover, that special measures should be taken, in case of need, to provide some preference to oilseeds from the associated states, since no tariff preference is possible. The likely form of these special measures is not stated. The Commission notes that the associated states have agreed to export oilseeds at world prices in return for grants from the Community to improve production. However, in view of the tendency of world prices to fluctuate and the importance of oilseed exports for some of the associated states, the Commission proposes that supplementary aid should be granted, on quantities imported by the Community, when the world price falls below a predetermined minimum level.

72. Oilseed production within the Community

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\(^9\) See also section on dairy products.
77. The associated African States will be in an advantageous position so far as their oil milling industries are concerned because their vegetable oil will enter the Community duty-free. These measures would thus tend to give a preference to vegetable oil produced in the Community and its associates, and to compensate the latter for the special arrangements formerly enjoyed in trade with France or Belgium. As long as the degree of protection is moderate, the Community's import demand for oils and oilseeds from other third countries would probably not be much affected. One reason is that the States which were formerly linked to France already enjoy a substantial preference in the French market for their groundnuts and groundnut oil, and this will be ended when the Community policy is put into operation. Another reason is that rising economic activity in the associated States may lead to an increased internal demand for oils and fats, which would tend to diminish export availabilities. A third reason is that the desire to diversify agricultural production may inhibit strong increases in production of oilcrops in countries where they are virtually monocultures, such as groundnuts in Senegal. Finally, since the associated states provide less than 25 per cent of the Community's total imports from third countries, a given percentage rise in these imports would be equivalent to a much smaller percentage fall in imports from the other third countries—a decline which might well be overshadowed by a rise in the total import demand of the Community.

78. A long-term factor of considerable importance is the way in which possible surpluses of milk in the Community will be handled. Seasonal surpluses, tentatively defined as any quantity up to the equivalent of 170,000 tons of butter in any single marketing year, would be disposed of at reduced prices, in ways that would not disturb normal sales of butter. Part of such disposals, however, could displace margarine purchases and thus diminish the demand for vegetable oils. If still larger dairy surpluses should develop, the common dairy policy would then have to be reviewed, according to the proposals, with a view to instituting structural changes in the industry.

DAIRY PRODUCTS

Place of the Community in world production and trade

79. Dairying is one of the major sources of farm income in the EEC area. In 1955-1959, for example, milk and milk products accounted for between 20 and 26 per cent of the total net value of farm output in the Federal Republic of Germany, the Netherlands, Belgium/Luxembourg and France, but only for about 12 per cent in Italy. The most significant feature of recent years has been the marked upward trend in milk output in the Community, increasing from 55 million tons in 1955 to 66 million tons in 1961, or by somewhat over 3 per cent per annum. This rapid growth in production has led to an increase in the proportion of milk utilized in manufactured products, as shown in Table 17.

---

**Table 17**

<table>
<thead>
<tr>
<th>Product</th>
<th>1955</th>
<th>1956</th>
</tr>
</thead>
<tbody>
<tr>
<td>Liquid milk and cream</td>
<td>15,986</td>
<td>16,673</td>
</tr>
<tr>
<td>Butter production</td>
<td>20,117</td>
<td>26,248</td>
</tr>
<tr>
<td>Cheese production</td>
<td>8,534</td>
<td>9,511</td>
</tr>
<tr>
<td>Condensed, evaporated milk</td>
<td>1,681</td>
<td>2,854</td>
</tr>
<tr>
<td>Milk powder</td>
<td>741</td>
<td>10,709</td>
</tr>
<tr>
<td>Others, including animal fat</td>
<td>741</td>
<td>10,709</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>55,059</td>
<td>65,995</td>
</tr>
</tbody>
</table>

---

80. The growth in production of manufactured dairy products has been accompanied by a slower rate of increase in their consumption, with the result that the Community in recent years has become slightly more than self-sufficient in dairy products as a whole.

81. Great differences exist between the individual countries of the Community both in production and in prices. While Italy and the Federal Republic are importers of dairy products, the Netherlands and France are net exporters. One of the difficulties in settling a common policy on dairy products has been the fact that producer and consumer prices of milk and dairy products are very different between the individual member countries. The recent wave of consumer price increases in the member countries might be considered as a step toward the common producer price. These increases have brought the low price in the Netherlands more in line with those in the other countries; except Italy, where a 30 per cent increase in retail prices per litre of bottled whole milk made Italian prices some 25 per cent higher than those in the rest of the Community.

The EEC's proposals for dairy products

82. The proposals made by the Commission for a common policy in the dairy sector aim at balancing demand and supply and guaranteeing producers an adequate price for their milk. A transition period, during which the marketing, price and support policies of the member countries are to be harmonized, will expire at the end of 1969. The starting date for this transition period is as yet undetermined since the Commission's proposals are still under debate; it is, however, at present expected that the policy for dairy products will go into operation on 1 April 1964, the beginning of the Community's dairy year.

83. From 1965, a common target price for milk, ex-farm, is to be determined annually for the Community. This price has not yet been fixed by the Council. During the transition period, the common target price is to serve as a basis for standardizing the national target prices and for approximating market prices for dairy products. Separate national target prices will also be established each year during the transition period, and these are to come gradually closer together and nearer the common target price.

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10 Proposals were originally made by the Commission in May 1962 and amended in April, July and September 1963.
84. As a means of gradually harmonizing prices of dairy products in member countries and providing a uniform system of protection against competition from third countries, a system of levies will, it is proposed, replace all existing national tariffs, quantitative import restrictions, etc. These levies will also be applicable for intra-Community trade until a uniform threshold price is in force in all member countries. This, it is contemplated, should be achieved by 1 April 1970. The levies on intra-Community trade prevailing during the transition period are to be lower by a fixed amount than levies on imports from third countries. Because of the large number of dairy products, levies will be calculated by the Commission for only a number of guide products.

85. In intra-Community trade it is proposed that certain additions to, or subtractions from, the levies may be made by the EEC authorities so as either to permit competition within the Community or to take account of transport costs.

86. It is proposed that funds acquired by an importing country through levies can be used as export subsidies of the exporting country. That is to say, if producers in the exporting country receive Government subsidies to bridge the difference between the market return for milk and the reference price, then the importing country would have to refund to the exporting country the corresponding amount from its levies.

87. For trade with third countries, levies would be calculated in the same way as between members, except that a single free-at-frontier price—the lowest obtainable on the world market—will be used instead of a different price for each offering country. Also the levies on imports from non-members will not be gradually diminished but will be retained in full force during and after the transition period.

88. An exception to this system would have to be made for hard cheese (Emmental and Cheddar) imported from third countries, to which the regulations agreed to in GATT would continue to apply. However, where these cheeses are offered below the minimum prices, the normal levy system will be applied. On imports of butter it is envisaged that, in addition to the levies based on the threshold price, a further levy of 5 cents per kg, and in certain circumstances of 8 cents per kg, may be needed to prevent imports from disturbing any necessary equalization of seasonal supplies on the national dairy markets, and this will also apply to member countries during the transition period.

89. In addition to these measures, import licensing is proposed for all dairy products other than fresh milk and cream. Licences would not be issued if imports appeared likely to threaten price levels within the Community.

90. Butter prices would be further supported by a system of national intervention prices. In the first year of the common policy, the national intervention prices would be based on the levels of the previous twelve-month period, but during the transition period they would be gradually aligned and related to the Community-wide target price for milk. If the quantities bought in maintaining prices at the intervention level proved to be greater than was necessary to make up the seasonal deficit in production, the stocks would be disposed of in such a way as to cause the least disturbance to normal sales of butter.

91. For the time being, national policies are, it is proposed, to be retained for milk and cream for fluid consumption, because the markets for these products are local or regional in character and in some member States have not been organized. It is envisaged, however, that a Community-wide policy will also eventually be adopted for these commodities.

92. In July 1963, in connexion with its new proposals for a common fats and oils policy, the Commission discussed the interrelationships between the fats sector and the dairy sector. In recommending a low-price policy for vegetable and marine fats and oils, the Commission recognized the need to take account of the close relationship between consumption of butter and vegetable oils, in particular margarine, but did not propose at that time any measures for regulating competition between butter and vegetable oils and fats. If the price of vegetable fats (including margarine) were to be raised to a level at which all the butter produced within the Community could be sold on the basis of the indicative milk price, additional expenses would be entailed for consumers, possibly larger than the present subsidies to the milk sector. However, the Commission also recognized that the competitive position of butter must not be allowed to worsen as a result of low prices in the fats sector. It is realized that if the relationship between prices of butter and of margarine is modified to the detriment of the former, the difficulties of the dairy products market could become insoluble.

93. It is the Commission’s view that if structural surpluses should appear on the Community milk market, a review of the proposed common policy would be required, and steps to raise dairy consumption, payment of subsidies of a “social character” to certain groups of producers, changes in the pattern of farm production and/or quantitative limitations on milk production might have then to be considered.

Recent developments in trade

94. The world supply of milk and dairy products has, during recent years, with the exception of 1963, increased faster than demand at prevailing prices, resulting at times in large accumulation of stocks. Traditional importers of dairy products have faced increased competition from countries which have recently become more than self-sufficient and these latter have frequently sold on the world market with heavy export subsidies. In recent years the last major free market for butter, the United Kingdom, introduced quantitative restrictions on imports; a gentleman’s agreement on minimum export prices of whole milk powder, of which all the EEC countries are members, was introduced in the spring of 1963; and various agreements concerning trade in cheese exist.

11 A structural surplus would, the Commission estimates, be any quantity, over and above the “normal” fluctuation in production of recent years of 4 million tons of milk (170,000 tons of butter), which the Community had regularly to withdraw from the market or export with the aid of refunds.
as, for example, the minimum export price agreement between the Federal Republic, the Netherlands and Denmark.

95. During the past few years the rate of increase in production of milk in the EEC area has far exceeded the rate of increase in consumption of milk and dairy products, with the result that the Community has become self-sufficient in dairy products as a whole. While it is still a net importer of cheese, it has become a net exporter of butter and also of considerable quantities of evaporated and condensed milk and milk powder. About half of the imports of cheese and butter by the individual EEC countries comes from other countries within the Community (Table 18), and about 40 per cent of the butter exports and about 60 per cent of the cheese exports go to member countries. In terms of whole milk equivalent, the EEC's trade in cheese is more important than its trade in butter. In 1962, the Community imported about 220,000 tons of cheese (about 2 million tons milk equivalent) and about 65,000 tons of butter (about 1.4 million tons milk equivalent) (Table 19). The most important third country suppliers were Denmark, Switzerland and Sweden, while the largest third country markets for the EEC's dairy exports were the United Kingdom and Algeria. The Netherlands, Belgium and France have a butter quota on the United Kingdom market; the quantitative restrictions introduced there recently had a strong impact on the level of French exports.

96. Prices of dairy products in the EEC countries are already relatively high compared with those in major exporting countries outside the Community. Even if prices remain near their present levels, there is a great potential for increased milk production within the area through improved dairy husbandry. According to FAO projections, on the assumption of a continuation of present trends, the exportable surpluses from the EEC area in terms of milk equivalent might increase from an average of 767,000 tons in 1956-60 to 7,540,000 tons in 1970, with projected production increasing by 37 per cent and consumption by only 25 per cent in that period.\(^\text{12}\)

97. If the target price is fixed at a high level this might also adversely affect consumption, which in any case is expected to increase slowly, since the consumption of edible fats is already high in most countries of the Community. The commodity most likely to be affected is butter, and the Netherlands,

TABLE 19
Recent trends in EEC trade in butter and cheese

<table>
<thead>
<tr>
<th></th>
<th>Butter</th>
<th>Cheese</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total imports of EEC</strong></td>
<td>64</td>
<td>51</td>
</tr>
<tr>
<td>of which from:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>EEC</td>
<td>18</td>
<td>24</td>
</tr>
<tr>
<td>Other countries</td>
<td>46</td>
<td>27</td>
</tr>
<tr>
<td><strong>Total exports of EEC</strong></td>
<td>47</td>
<td>61</td>
</tr>
<tr>
<td>of which to:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>EEC</td>
<td>22</td>
<td>25</td>
</tr>
<tr>
<td>Other countries</td>
<td>25</td>
<td>36</td>
</tr>
</tbody>
</table>

(Per cent)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total imports of EEC</strong></td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
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</tr>
<tr>
<td>of which from:</td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>EEC</td>
<td>28</td>
<td>47</td>
<td>54</td>
<td>45</td>
<td>55</td>
<td>50</td>
<td>52</td>
<td>53</td>
</tr>
<tr>
<td>Other countries</td>
<td>72</td>
<td>53</td>
<td>46</td>
<td>55</td>
<td>45</td>
<td>50</td>
<td>48</td>
<td>47</td>
</tr>
<tr>
<td><strong>Total exports of EEC</strong></td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
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<td>100</td>
<td>100</td>
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</tr>
<tr>
<td>of which to:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>EEC</td>
<td>47</td>
<td>41</td>
<td>40</td>
<td>36</td>
<td>55</td>
<td>55</td>
<td>58</td>
<td>62</td>
</tr>
<tr>
<td>Other countries</td>
<td>53</td>
<td>59</td>
<td>60</td>
<td>64</td>
<td>45</td>
<td>45</td>
<td>42</td>
<td>38</td>
</tr>
</tbody>
</table>

(In thousands of metric tons)

*The difference between import and export data is mainly due to large quantities of butter stored at the Italian frontier in 1961 and partly released in 1962.

which is the largest EEC exporter, may find its markets within the Community progressively reduced as domestic production in other member countries continues to grow. The problems for the Netherlands and France will be to find export markets for dairy products, particularly butter, outside the Community.

98. On the other hand, the Commission's proposals include provisions—limitation of milk production, subsidization of consumption of surplus products, etc.—for dealing with surpluses, and shipments of certain dairy products to less developed regions of the world may also become of greater importance.

RICE

Place of the Community in world production and trade

99. France and Italy, the only two EEC countries where rice is cultivated, currently produce about 800,000 tons of paddy annually, which (deducting seed and losses) corresponds to 500,000 tons of milled rice. Of this, the producer countries themselves consume about 300,000 tons, leaving some 200,000 tons for export, mainly from Italy. This is approximately equivalent to the amount of rice imported into the EEC for human consumption, another 100,000 tons being purchased for animal feed and industry in the form of brokens. The EEC thus accounts for only some 5 per cent of world exports of rice and some 5 per cent of world imports.

100. In 1962, 80 per cent of the EEC's imports came from outside the Community, 9 per cent was bought within the Six and 11 per cent originated in the associated countries and territories. Since imports into the Federal Republic, the Netherlands and Belgium are free of Government control, this pattern presumably reflects consumer tastes as well as competitive prices and qualities, though it should be recorded that rice imported from the United States (the biggest single outside source) is favoured by a heavy export subsidy.

The EEC's proposals for rice

101. At the time of writing, no common policy for rice has been accepted by the EEC states. Proposals for the organization of a common market for rice were first made by the EEC Commission in July 1961. The general aims of these proposals were to establish by 1968, following a transition period of six years, a unified market with the characteristics of a domestic market; to guide rice production according to market requirements; to ensure the profitability of production to normally efficient cultivators; to maintain the stability of the market; and to safeguard the interests of the processing industry, commerce, and the consumer. Draft articles of a new regulation were drawn up in May 1962, but this was not accepted by the EEC Council, which in October 1962 instructed a group of experts to re-examine the proposals with particular reference to their effects on EEC consumer prices and the rice milling industry. In March 1963, "the Commission's staff submitted new supplementary proposals for bringing the market organization planned closer into line with the common organization of the cereals markets. The Special Committee for Agriculture decided to instruct the working party on rice to examine the Commission's new proposals". In mid-July, the Ministerial Committee discussed rice marketing problems but reached no agreement on the new policy.

The main points of the Commission’s proposals of May 1962 are summarized below.

102. The draft regulation was modelled on that for other grains, with certain important differences. The “Management Committee” set up for grains was to be empowered to take decisions also on rice. The scheme, however, took into account that the two member states which produce rice have different interests from the other four, which at present impose no restrictions on trade except for the preferential duty on milled rice imported into the Federal Republic. This situation would permit (a) the immediate creation of a single market covering Belgium, Luxembourg, Netherlands and the Federal Republic, with the same levy on imports from third countries; (b) France and Italy to fix their own guaranteed farm prices for paddy and their system for import protection separately during a transition period. All price levels would be gradually harmonized and would be identical in all six member states by 1969. A uniform levy for the Community would then be applied to imports from third countries.

103. Threshold prices (i.e., prices at the border) would be fixed before 2 June each year by each country, based on round-grain husked rice of identical quality. In France and Italy they would be determined by the intervention price for paddy, converted to husked rice according to a standard conversion scale, plus 5 per cent, plus a standard fixed sum, and an additional amount to cover costs of freight and marketing between the producing area and the most distant marketing centre. Prices for broken rice would be determined in the same way before 1 July each year. The four non-producing members would have a common threshold price, fixed annually before 1 October by the EEC Council on the proposal of the Commission. The margin between the common threshold price in the four non-producers and those in the two producers would be gradually eliminated during the transition period.

104. In the transition period the import levies would differ according to the source and destination of the rice.

(a) Rice or brokens imported into any EEC member from third countries would be subject to a levy equal to the difference between the threshold price (defined above) and the c.i.f. import price. This c.i.f. price would be established by the Commission for husked round-grain rice of a standard quality on the basis of the lowest quotation, North Sea port basis, for exports from third countries whose exports maintain constant standards of quality. Appropriate adjustments would be made for quality and type of processing.

(b) Rice imported into a non-producing member from any other member of the EEC would not be subject to a levy.

(c) Rice imported into an EEC producing country would be subject to a levy equal to (if the rice originates in the other EEC producer) the difference between the threshold price of the importer concerned and the “free-frontier” price of the EEC exporting country; or (if the rice originates in one of the four non-producing members) to the difference between the threshold prices of the EEC importer and the exporter concerned.

(d) In the former case (i.e., trade between France and Italy), where the rice was grown in the EEC, the levy would be reduced by a fixed amount (“montant forfaitaire”). This lump-sum would be fixed annually by the Council on the proposal of the Commission.

<table>
<thead>
<tr>
<th></th>
<th>Total EEC</th>
<th>France</th>
<th>Germany (F.R.)</th>
<th>Italy</th>
<th>Belgium-Luxembourg</th>
<th>Netherlands</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total imports</td>
<td>340(^a)</td>
<td>70</td>
<td>143</td>
<td>1</td>
<td>56</td>
<td>71</td>
</tr>
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<td>of which:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>from EEC</td>
<td>30</td>
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<td>—</td>
<td>—</td>
<td>6</td>
</tr>
<tr>
<td>Belgium-Luxembourg</td>
<td>3</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>3</td>
</tr>
<tr>
<td>Germany (F.R.)</td>
<td>1</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>1</td>
</tr>
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<td>Italy</td>
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<td>Netherlands</td>
<td>5</td>
<td>—</td>
<td>5</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>from associated States and territories</td>
<td>38</td>
<td>22</td>
<td>13</td>
<td>—</td>
<td>—</td>
<td>2</td>
</tr>
<tr>
<td>Madagascar</td>
<td>23</td>
<td>22</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Surinam</td>
<td>15</td>
<td>—</td>
<td>13</td>
<td>—</td>
<td>—</td>
<td>2</td>
</tr>
<tr>
<td>from other countries</td>
<td>272</td>
<td>46</td>
<td>106</td>
<td>1</td>
<td>56</td>
<td>63</td>
</tr>
<tr>
<td>United States</td>
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<td>3</td>
<td>77</td>
<td>—</td>
<td>5</td>
<td>12</td>
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<td>Thailand</td>
<td>39</td>
<td>3</td>
<td>5</td>
<td>—</td>
<td>9</td>
<td>22</td>
</tr>
<tr>
<td>Cambodia</td>
<td>34</td>
<td>34^b</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Burma</td>
<td>33</td>
<td>—</td>
<td>11</td>
<td>—</td>
<td>14</td>
<td>8</td>
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<td>China (Mainland)</td>
<td>15</td>
<td>—</td>
<td>3</td>
<td>—</td>
<td>5</td>
<td>7</td>
</tr>
<tr>
<td>Argentina</td>
<td>14</td>
<td>—</td>
<td>4</td>
<td>1</td>
<td>7</td>
<td>2</td>
</tr>
<tr>
<td>Other</td>
<td>40^b</td>
<td>6</td>
<td>6</td>
<td>—</td>
<td>16</td>
<td>12</td>
</tr>
</tbody>
</table>

\(^a\) Retained imports amounted to 275,000 tons; the Netherlands and Belgium re-export about 65,000 tons of imported rice after processing and packaging.

\(^b\) Of which: Brazil 8, Uruguay 8, UAR (Egypt) 4, Viet-Nam 3, Spain 2, Morocco 2.
and published before the beginning of each season (though subject to revision during the season if intra-Community trade did not develop).

105. All the levies (including the lump sum) on trade among the Six would be reduced progressively as national prices were harmonized, and would disappear when the transition stage ended in 1969. Special provision would be made for rice starch.

106. If the export prices of France or Italy were above the threshold price in the EEC importers, then the exporter would be granted a refund.

Recent developments in trade

107. The volume of imports of rice into the EEC countries has been relatively stable in the past decade at about 300-350,000 tons, of which 100-150,000 tons is in the form of brokens. About one-tenth originates within the Community itself (see Table 21). Consumption within the Six is rising only slowly, largely in line with population growth. The noticeable features are, on the one hand, the somewhat higher percentage of rice bought in 1961 and 1962 from associated countries and territories, which brought the purchases from EEC and associated sources to 19-20 per cent as against only 17-18 per cent in 1955-1960; on the other hand, the rapidly increasing share of supplies provided by the United States which, with the aid of vigorous promotion and a payment-in-kind export subsidy scheme, has become since 1960 the largest supplier of rice to Western Europe, mainly to the Federal Republic in the form of husked rice.

Longer-term prospects

108. Probably about 100,000 tons or more of the EEC’s imports consist of high quality long/medium grain rice, mainly from Thailand and the United States. For certain dishes there appears to be a definite preference for this type of rice, which, for climatic reasons, is not grown in Europe. This suggests that, if consumer interests are to be safeguarded, the Community cannot achieve complete self-sufficiency, even in rice for human consumption. Over one-half of the EEC imports of rice for human consumption consist of round-grain and soft-cooking varieties, however, and the proposed import levy system would presumably encourage EEC importers to concentrate purchases of these types in Italy. It is not expected that imports of broken rice would be affected.

109. The proposed import levy arrangement could, it is feared by third country exporters,\(^\text{14}\) insulate the EEC rice producers from outside competition and prevent an expansion in the EEC’s imports of rice, thus affecting the economic growth of developing countries. Also, a high levy on imports from third countries might encourage an expansion of production for export among the Six, and lead to the suspension of imports from third sources. Third countries contend that while at present north-west Europe is virtually a free trade area, under the 1962 proposals it would become a regulated market subject to licences. Instead of the proposed variable import levy system, they urged the EEC to continue to use fixed tariffs.

110. The non-producing EEC countries have given assurances that, in formulating the common policy for rice, due consideration would be given to the interests of third party exporting countries and the traditional patterns of trade, as well as to those of the producers, consumers and milling industry within the EEC. They were particularly concerned that the trade of under-developed countries which depended heavily on rice exports should not suffer, and hoped that this could be avoided by modifying the proposals under consideration.\(^\text{14}\)

\(^{14}\) See paragraphs 63 and 64 of the Report of the seventh session of the FAO Consultative Sub-Committee on the Economic Aspects of Rice, Tokyo, February 1963.

SUGAR

Place of the Community in world production and trade

111. The six member countries of the EEC together account for a little over 10 per cent of world production of centrifugal sugar and for a smaller proportion of world trade. As a group they have the capacity to be entirely self-sufficient at current levels of sugar consumption and, on average during recent years, they have in fact produced slightly more than they have consumed. In the three seasons 1959/60-1961/62, the production of Belgium-Luxembourg, Metropolitan France and the Netherlands amounted to 132, 120 and 113 per cent respectively of their consumption in 1960-62, while in the Federal Republic and Italy production amounted to 90 and 97 per cent of consumption. The growth of production in the Community, which increased from an average of 3.4 million metric tons in 1949/50-1951/52 to 5.7 million tons in 1960/61-1962/63, was most marked in Italy and in the Federal Republic, which no longer relied on supplies from Eastern Germany, where the major sugar-producing areas of pre-war Germany were situated. In both countries areas planted to beet
were still relatively small in the earlier post-war period and have now been expanded to about twice their pre-war size. Sugar yields, although very variable, also increased, especially in these countries and in France. The average consumption of sugar per caput, which is about double the world average, is nevertheless substantially below the 45 to 55 kg per annum attained in the highest consuming countries of western Europe and North America. Only the Netherlands has a consumption as high as 45 kg per caput. Belgium and Luxembourg, France and the Federal Republic consume 30-35 kg per caput and Italy, in spite of a rapid improvement, at present about 25 kg.

112. Metropolitan France, which accounts for about half the total imports into the Community and as much as three-quarters of its exports, has had a substantial net export balance in six of the past ten years. In addition to exports of domestically produced beet-sugar, it has an extensive trade with other areas of the franc zone, importing most of the raw cane-sugar produced in the overseas departments and Madagascar, refining it and re-exporting a proportion to the importing areas. Belgium is a net exporter, exporting both domestically produced sugar and sugar refined from imported raws. The Netherlands, although on balance a net importer of sugar, is self-sufficient as far as requirements for domestic consumption are concerned. It has an important export trade, based on imported raws, in refined sugar and also in sugar-containing products, which have averaged about 150,000 tons in raw sugar equivalent in recent years. Italy imports marginal quantities of sugar in order to even out supplies. Exceptionally, however, it exported a large quantity in 1957 after two large beet crops and imported substantial amounts in 1963. The Federal Republic has become increasingly self-sufficient but is still a substantial importer.

The EEC's proposals for sugar

113. Proposals for a common policy for sugar were presented to the Council of the EEC by the Commission in June 1960 and a draft regulation was to have been submitted with a view to putting the policy into effect at the beginning of 1963. However, no regulation has yet been published.

114. The Commission's proposals envisaged the establishment of a target price for sugar to be fixed each year before 1 October for the following season and an intervention price, lower than the target by a margin to be determined, at which the proposed European Sugar Bureau would be prepared to buy sugar offered to it. The establishment of prices for beets would be a matter for individual Governments if they so desired. Imports would be subject to licensing but the issue of licences would be suspended as a safeguard measure in special circumstances, such as when the Bureau was buying heavily to support the market. Protection against imports of lower-priced sugar would be achieved normally through the application of variable levies, which would replace import duties and absorb the difference between the target price and the world market price. These levies would be the main source of funds for interventions on the domestic market. The target and intervention prices would be applicable only to sugar

15 On a deficit area basis.
16 They would also replace the common external tariff of 80 per cent toward which some alignment has been made (see below).

Table 22
Sugar: Pattern of EEC imports* in 1962
(In thousands of metric tons, raw value)

<table>
<thead>
<tr>
<th></th>
<th>Total EEC</th>
<th>France</th>
<th>Germany (F.R.)</th>
<th>Italy</th>
<th>Belgium-Luxembourg</th>
<th>Netherlands</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total imports</td>
<td>750</td>
<td>429</td>
<td>159</td>
<td>26</td>
<td>9</td>
<td>127</td>
</tr>
<tr>
<td>of which:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>from EEC</td>
<td></td>
<td>149</td>
<td>2</td>
<td>42</td>
<td>19</td>
<td>3</td>
</tr>
<tr>
<td>France</td>
<td></td>
<td>139</td>
<td>—</td>
<td>38</td>
<td>19</td>
<td>3</td>
</tr>
<tr>
<td>Belgium-Luxembourg</td>
<td></td>
<td>6</td>
<td>2</td>
<td>2</td>
<td>—</td>
<td>2</td>
</tr>
<tr>
<td>Netherlands</td>
<td></td>
<td>2</td>
<td>—</td>
<td>2</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Germany (F.R.)</td>
<td></td>
<td>2</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>from associated States, territories and overseas départements</td>
<td>400</td>
<td>398</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>2</td>
</tr>
<tr>
<td>Réunion</td>
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<td>182</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Guadeloupe</td>
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<td>113</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Martinique</td>
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<td>74</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Madagascar</td>
<td>30</td>
<td>30</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Surinam</td>
<td>2</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>from other countries</td>
<td>201</td>
<td>29</td>
<td>117</td>
<td>7</td>
<td>5</td>
<td>43</td>
</tr>
<tr>
<td>Cuba</td>
<td>63</td>
<td>—</td>
<td>52</td>
<td>—</td>
<td>1</td>
<td>10</td>
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<td>29</td>
<td>10</td>
<td>—</td>
<td>—</td>
<td>25</td>
</tr>
<tr>
<td>Poland</td>
<td>64</td>
<td>13</td>
<td>3</td>
<td>3</td>
<td>1</td>
<td>6</td>
</tr>
<tr>
<td>Czechoslovakia</td>
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<tr>
<td>Dominican Republic</td>
<td>9</td>
<td>9</td>
<td>—</td>
<td>—</td>
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<td>—</td>
</tr>
<tr>
<td>Other</td>
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<td>—</td>
<td>4</td>
<td>4</td>
<td>1</td>
<td>2</td>
</tr>
</tbody>
</table>

* Including internal movements between the French overseas departments (Réunion, Guadeloupe and Martinique) and Metropolitan France.
TABLE 23
Sugar: Pattern of EEC exports in 1962
(In thousands of metric tons, raw value)

<table>
<thead>
<tr>
<th>Total EEC</th>
<th>France</th>
<th>Germany (F.R.)</th>
<th>Italy</th>
<th>Belgium-Luxembourg</th>
<th>Netherlands</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total exports</td>
<td>817</td>
<td>690</td>
<td>41</td>
<td>73</td>
<td>13</td>
</tr>
<tr>
<td>of which:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>to EEC</td>
<td>175</td>
<td>148</td>
<td>15</td>
<td>—</td>
<td>9</td>
</tr>
<tr>
<td>Netherlands</td>
<td>81</td>
<td>71</td>
<td>8</td>
<td>—</td>
<td>2</td>
</tr>
<tr>
<td>Germany (F.R.)</td>
<td>44</td>
<td>39</td>
<td>—</td>
<td>—</td>
<td>3</td>
</tr>
<tr>
<td>Italy</td>
<td>26</td>
<td>24</td>
<td>—</td>
<td>—</td>
<td>2</td>
</tr>
<tr>
<td>Belgium-Luxembourg</td>
<td>14</td>
<td>14</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>France</td>
<td>10</td>
<td>—</td>
<td>6</td>
<td>—</td>
<td>2</td>
</tr>
<tr>
<td>to associated States, territories and overseas departments</td>
<td>130</td>
<td>122</td>
<td>—</td>
<td>7</td>
<td>1</td>
</tr>
<tr>
<td>ex-French W. Africa</td>
<td>102</td>
<td>97</td>
<td>—</td>
<td>5</td>
<td>—</td>
</tr>
<tr>
<td>Cameroon</td>
<td>6</td>
<td>6</td>
<td>—</td>
<td>—</td>
<td>—</td>
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<tr>
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<tr>
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<td>512</td>
<td>420</td>
<td>26</td>
<td>57</td>
<td>9</td>
</tr>
<tr>
<td>Algeria</td>
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<td>—</td>
<td>—</td>
</tr>
<tr>
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<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Other</td>
<td>106</td>
<td>65</td>
<td>1</td>
<td>—</td>
<td>32</td>
</tr>
</tbody>
</table>

Recent developments in trade

117. The main factors affecting the size and pattern of the EEC trade in sugar in recent years have been the variations of production in the individual member countries, especially in France. Thus, in 1961, after exceptionally large beet harvests, EEC exports of sugar increased and imports declined, shifting the Community as a whole on to a net export basis. The whole impact of these changes was concentrated on its trade with third countries, while trade between France and its overseas departments and other areas of the franc zone continued to expand.

118. The three French overseas departments of Martinique, Guadeloupe and Réunion and also Madagascar, which like Metropolitan France are allotted sugar production quotas, receive a guaranteed price for raw sugar exported to France (and to other French and former French territories) which is equivalent, on a refined sugar basis, to the ex-factory price established for beet sugar produced in France. Moreover, France has a smaller but increasing market for refined sugar, which is subsidized by the Government with respect to part of the difference between the internal French price and the export price, in various overseas importing areas of the franc zone.

119. The EEC as a whole, the greater part of whose trade was accounted for by France, was a net importer from 1956 to 1960 and a net exporter in 1955, 1961 and 1962. Until 1961, approximately two-thirds of gross imports originated in third countries and, apart, for instance, from some imports of the Federal Republic from eastern Europe, consisted largely of cane sugars from Cuba and other Latin American countries. The bulk of the remaining imports into the EEC originated in the overseas...
departments and Madagascar. After the record 1960/61 beet crops, however, French imports were sharply reduced and, in both 1961 and 1962, were confined almost entirely to supplies from its overseas departments and Madagascar, while in 1961 imports into other members of the EEC were either reduced and/or supplied to a greater extent by France and other European countries rather than by Latin America. The Federal Republic, which since 1951 has allotted import quotas under agreements with Cuba, Peru, and the Dominican Republic, allowed these agreements to lapse in 1960. France also increased its exports to third countries in 1961 with the result that the Community developed a substantial net export balance with third countries. In 1962 the impact of the Community’s reduced beet crops of 1961/62 was also concentrated on its trade with third countries but as France still had substantial stocks, there was nonetheless a significant net export balance with them. Further adjustments in this sector of trade can be expected in 1963 as the result of another poor beet harvest in 1962/63.\(^{20}\)

120. Trade within the Community itself, specifically exports of refined sugar from France to other members, especially the Netherlands, increased sharply after 1960, reaching 20 per cent of the total trade of the Community in 1962. It is impossible to judge, however, to what extent, if any, this may have been facilitated by the increased margins of preference\(^{21}\) which have become applicable to trade within the Community. Members have been reducing their sugar import duties vis-à-vis other members and adjusting their duties vis-à-vis third countries—downward in the case of Italy and upward for other members—toward the common external tariff of 80 per cent.

\(^{20}\)Italy has been allowed a duty free import quota of 130,000 tons for 1963.

\(^{21}\)By mid-1962, the preferential margin amounted to 24 per cent or more.

Longer-term prospects

121. As the common policy for sugar is still in a formative stage and agreement has still to be reached on its principal features and on the detailed provisions for its application, longer-term prospects cannot yet by adequately appraised. A major question affecting the Community’s trade in sugar with the rest of the world is whether the proposed objective with regard to domestic production—that it should not develop beyond the requirements for domestic consumption—will be confirmed and, further, whether the level at which the common target price is eventually determined will, in practice, be in conformity with this objective.

122. The adaptation of the member countries’ different systems and price levels for sugar to the conditions of a common market clearly presents great difficulties. Although existing national policies have much in common, e.g., the control of production and marketing by Governments or under government supervision, high duties and taxes, the protection of their domestic production against lower-priced imports and a close relationship between sugar beet and wheat prices, there are considerable differences in price levels, fiscal and taxation systems and the precise objectives and methods adopted. Prices of both beets and sugar have been lowest in France and the Netherlands and highest in Italy and the Federal Republic and, indeed, the Commission had proposed specific increases in sugar prices for the first two countries and decreases for the latter two with respect to the first year of the transition period then contemplated. A continuation of the growth of consumption would give opportunities for the expansion of domestic production and, with a common price level and the removal of obstacles to trade between members, such expansion would tend to concentrate in areas where suitable land and labour were available and be facilitated by the trend toward greater mechanization. However, since the
AGRICULTURAL COMMODITIES AND EEC

protection of national industries is one of the objectives of most Governments, there would presumably be strong resistance to major changes in the geographic distribution of production at least during the transition period.

COCOA

Place of the Community in world trade

123. World trade in cocoa beans is highly concentrated: five producing countries—Ghana, Nigeria, Brazil, Cameroon and the Ivory Coast, in that order—accounted for 82 per cent of world exports during the period 1959-61 and five consuming countries—the United States, the Federal Republic of Germany, the Netherlands, the United Kingdom and France—accounted for over 70 per cent of world imports.

124. The six countries of the EEC now form together the largest import market for cocoa beans, with about 35 per cent of net world imports, as compared with 30 and 10 per cent respectively for the United States and the United Kingdom, whose relative importance has declined. The EEC countries also account for about 30 per cent of total world grindings of cocoa beans and about 25 per cent (in terms of beans) of world consumption of cocoa and chocolate products. All members except Belgium have a net export trade in cocoa and chocolate products; and in the Netherlands, which is the leading world supplier of cocoa butter and cocoa powder, the export market is much larger than the domestic market. Per capita consumption of these products, which has been rising throughout the Community, is higher in Belgium, the Netherlands and the Federal Republic than in most other countries, having reached or exceeded 2 kg (beans equivalent) in recent years. It is also relatively high in France (1.26 kg in 1961) but still remains low in Italy (0.43 kg in 1961).

125. On the production side, the associated African states and Madagascar account for about 200,000 tons, or 17 per cent, of world production of cocoa beans. The Ivory Coast and Cameroon together produce about 15 per cent of world output. Production in the associated states has shared in the general expansion of world production, which rose sharply from an average of 0.82 million metric tons in 1952/53-1956/57 to 1.11 million tons in the four seasons ending 1962/63, and has retained its relative share in the total.

126. In 1962 the EEC imported 361,000 tons of cocoa beans, 80 per cent more than the total output of associated States. France obtained over 80 per cent of her requirements from these countries but the Federal Republic and the Netherlands imported much the larger portion of their supplies from Ghana, Nigeria and Latin American countries. In total, only 36 per cent of EEC supplies were obtained from the associated States.

The EEC’s policy for cocoa

127. The EEC’s policy for cocoa is contained in the Convention of Association between the associated African States and Madagascar and the Community signed in July 1963 and its accompanying protocols and declarations. The main instruments of the policy are: (1) customs preference for the associated countries, territories and overseas departments; and (2) provision of financial and technical aid for agriculture generally to the associated countries and territories.

128. As soon as the Convention comes into force, cocoa from the associated States, territories and overseas departments will enter the Community duty free and, at the same time, the Six will apply the common tariff to imports from third countries. Simultaneously, the common tariff for cocoa beans, which was originally set at 9 per cent, is to be reduced to 5.4 per cent; that for cocoa butter, cocoa mass and cocoa powder remains at 22, 25 and 27 per cent respectively.

| Table 25 |
| Cocoa: Pattern of EEC imports in 1962 |
| (In thousands of metric tons) |

<table>
<thead>
<tr>
<th>Total imports</th>
<th>France</th>
<th>Germany (F.R.G.)</th>
<th>Italy</th>
<th>Belgium-Luxembourg</th>
<th>Netherlands</th>
</tr>
</thead>
<tbody>
<tr>
<td>EEC</td>
<td>361</td>
<td>69</td>
<td>137</td>
<td>37</td>
<td>15</td>
</tr>
<tr>
<td>of which:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>From EEC</td>
<td>2</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>From associated States, territories and overseas departments</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cameroon</td>
<td>59</td>
<td>17</td>
<td>12</td>
<td>4</td>
<td>1</td>
</tr>
<tr>
<td>Ivory Coast</td>
<td>55</td>
<td>34</td>
<td>6</td>
<td>4</td>
<td>1</td>
</tr>
<tr>
<td>Togo</td>
<td>8</td>
<td>5</td>
<td>1</td>
<td></td>
<td>2</td>
</tr>
<tr>
<td>Congo (Leopoldville)</td>
<td>5</td>
<td>1</td>
<td>1</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Other</td>
<td>5</td>
<td>1</td>
<td>1</td>
<td></td>
<td>1</td>
</tr>
<tr>
<td>From other countries</td>
<td>228</td>
<td>12</td>
<td>117</td>
<td>29</td>
<td>8</td>
</tr>
<tr>
<td>Ghana</td>
<td>115</td>
<td>6</td>
<td>68</td>
<td>15</td>
<td>2</td>
</tr>
<tr>
<td>Nigeria</td>
<td>65</td>
<td>5</td>
<td>28</td>
<td></td>
<td>8</td>
</tr>
<tr>
<td>Brazil</td>
<td>18</td>
<td>4</td>
<td>12</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>Ecuador</td>
<td>8</td>
<td>5</td>
<td>2</td>
<td></td>
<td>1</td>
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<tr>
<td>Other</td>
<td>22</td>
<td>1</td>
<td>4</td>
<td>2</td>
<td>5</td>
</tr>
</tbody>
</table>
129. Funds of up to $50 million are to be made available by the European Development Fund for the price stabilization of tropical products and will take the form of short-term advances to all of the existing or prospective “Caisses de stabilisation” or similar organizations.

130. The cocoa industries of the associated partners will no doubt be eligible for funds for capital investment and the technical assistance to be provided in connection with such investments. Since their cocoa is already marketed at world prices, the totals to be allotted for aid to production (amounting in total to $230 million and including $46.7 million for the Ivory Coast and $15.8 million for Cameroon) do not relate directly to cocoa. According to a declaration made in conjunction with the Convention, member states will study the means of encouraging an increase in the consumption of products originating in the associated states.

Recent developments in trade

131. Recent trends in EEC imports of cocoa reflect, in the first place, a marked rise in consumption from 1959 onwards. This was common to the main consuming countries of western Europe and the United States and was stimulated by the fall in prices, and the greater availability and regularity of supplies which resulted from the expansion of production in these years. Greater promotion efforts by chocolate manufacturers, and rising incomes and standards of living in the consuming countries also contributed. Moreover, consuming countries also increased their stocks between 1959 and 1962. Thus total imports of cocoa into the EEC in 1961 and 1962 were on average 30 per cent higher than in 1958-60 and nearly 45 per cent higher than in 1955-57. In view of the rapidity of this expansion, variations in the proportion obtained from the associated states and territories were not large and do not appear to have been related to any changes in preferential margins of duty. The proportion of imports of cocoa from the franc zone into France, which continued to allow duty-free entry from this zone after 1959 when it introduced a 3 per cent duty on cocoa from other countries, has remained stable since 1957. The preferential margins applicable to imports into the Benelux countries, Italy and the Federal Republic from the associated States are at present 2.7, 2.7 and 2.5 per cent respectively.

Longer-term prospects

132. The main question arising out of the application of the EEC policy for cocoa is whether in a longer period of, say, 5 to 7 years, it will lead to a greater expansion of the cocoa production and exports in the associated States than in other producing countries. In the shorter period the scope for change in the pattern of trade is limited since, on the one hand, only about one-quarter of the associated countries’ exports are shipped to other destinations, principally the United States and, on the other, their total production is still far short of total EEC requirements. However, in periods of ample world supplies and low prices the tariff preference of the EEC might somewhat facilitate the marketing of supplies from the associated States, notwithstanding traditional preferences for cocoa of particular origins. This, together with the continuation of assistance to their national funds for the stabilization of producer prices, could help maintain an incentive toward a steady expansion of production when other producers were experiencing greater difficulties in finding markets for their current production. As the Convention makes no specific provisions for cocoa in respect of the financial and technical aid to be provided, it is impossible to assess to what extent such aid is likely to stimulate cocoa production. Presumably, the aid will aim to raise agricultural productivity, improve agricultural structures and diversify single crop economies. It could result in some extension of cocoa production in the smaller associated producing areas.

133. Although the average per caput consumption of cocoa in the Community is relatively high, there is scope for expansion, particularly in Italy. However, the development of consumption is at least as responsive to cocoa prices as it is to income changes because of the possibility of substitution between cocoa and other ingredients in the manufacture of chocolate products. Reductions in internal taxes on cocoa, which are relatively high in some EEC countries, would therefore contribute to an expansion of demand. FAO projections for EEC grindings in 1970 based on an increase of 4.7 per cent per annum in gross national product per head in the EEC as a whole, and alternative assumptions for cocoa prices of 18 and 24 US cents per lb, indicated totals of 416,000 and 381,000 metric tons respectively, as compared with 344,000 tons in 1962 when Spot Ghana in New York was

Table 26
Cocoa: Recent trends in EEC imports

<table>
<thead>
<tr>
<th>Year</th>
<th>Total imports of EEC</th>
<th>of which from:</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(In thousands of metric tons)</td>
<td>Other EEC</td>
</tr>
<tr>
<td>1955-57</td>
<td>246.1</td>
<td>0.8</td>
</tr>
<tr>
<td>1958-60</td>
<td>268.7</td>
<td>1.1</td>
</tr>
<tr>
<td>1961</td>
<td>344.5</td>
<td>1.5</td>
</tr>
<tr>
<td>1962</td>
<td>361.1</td>
<td>1.6</td>
</tr>
</tbody>
</table>

(Percentage)

<table>
<thead>
<tr>
<th>Year</th>
<th>Total imports of EEC</th>
<th>of which from:</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(Percentage)</td>
<td>Other EEC</td>
</tr>
<tr>
<td>1955-57</td>
<td>100.0</td>
<td>0.3</td>
</tr>
<tr>
<td>1958-60</td>
<td>100.0</td>
<td>0.4</td>
</tr>
<tr>
<td>1961</td>
<td>100.0</td>
<td>0.5</td>
</tr>
<tr>
<td>1962</td>
<td>100.0</td>
<td>0.4</td>
</tr>
</tbody>
</table>

22 A duty-free market for cocoa beans.
23 The short-term loans to be made available to the “Caisses de stabilisation” by the European Development Fund will, in effect, replace those at present available from the French “Fonds national de régularisation des cours des produits d’outre-mer” for use in years when export prices fall below a reference price fixed by the French authorities.
Agricultural Commodities and EEC

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averaged 21 cents. It has also been estimated that the total elimination of taxes and duties on cocoa and chocolate products in the EEC could increase its total import demand in 1970 by about $24 million (equivalent to about 35,000 tons).26

134. The EEC countries have an important share in world trade in cocoa and chocolate products, and this trade will, to some extent, bear the incidence of the increase in duties on beans arising from the application of the common tariff. Trade in products between members, which is already substantial, will be stimulated and become more competitive with the establishment of the Common Market. Manufacturers from third countries might find it desirable to establish subsidiary factories within the Market in order to avoid the relatively high common tariff on such products.

COFFEE

Place of the Community in world trade

135. In 1962 the coffee imports of the EEC reached 673,000 tons, valued at over $500 million. Together, the countries of the Community represent the second largest market for coffee—after the United States—accounting in 1962 for about 24 per cent of world imports. From 1951-55 to 1956-60, the coffee imports of the Community increased at the rate of 6.8 per cent annually, but between 1958-60 and 1962 the rate of growth declined to 5.4 per cent per year.

136. As shown in Table 27, the Federal Republic of Germany and France are the main coffee importers in the Community, each taking over 200,000 tons per year. The Benelux countries and Italy each import over 100,000 tons. While over 70 per cent of the Community's imports originate in non-associated countries, the pattern of trade differs considerably from country to country. In the Federal Republic, Italy, the Netherlands and Belgium-Luxembourg these imports consist mainly of Arabica coffees, the largest supplier being Brazil. The bulk of the Community's imports from associated countries, consisting mainly of Robusta coffees, go to France where they enjoy preferential treatment. Robustas represent about three-quarters of the French imports, the remainder coming mostly from Brazil. Italy imports about one-quarter of its requirements from associated countries and is the only other member of the Community which so far has shown a significant interest in the Robusta coffees produced in these countries.

The EEC's policy for coffee

137. As coffee is not produced in Europe, the EEC's policy on this product relates exclusively to:
(a) the common tariff, and (b) the provisions of the new Convention of Association affecting coffee.

138. The common tariff on coffee, which was to be gradually implemented, was originally fixed at 16 per cent ad valorem. This represented a sharp increase in the tariff incidence in the Netherlands, where no customs duties were charged, and in Belgium-Luxembourg, where only a small turnover tax was in force. It also implied a rise in Italy, where the current duty on coffee was equivalent to about 10 per cent. In the Federal Republic and France which imposed respectively duties of about 29 and 20 per cent, the 16 per cent tariff involved a reduction in protection,

Table 27

Coffee: Pattern of EEC imports in 1962
(In thousands of metric tons)

<table>
<thead>
<tr>
<th>Total Imports</th>
<th>Total EEC</th>
<th>France</th>
<th>Germany (F.R.)</th>
<th>Italy</th>
<th>Belgium-Luxembourg</th>
<th>Netherlands</th>
</tr>
</thead>
<tbody>
<tr>
<td>of which:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>From EEC</td>
<td>673</td>
<td>207</td>
<td>234</td>
<td>112</td>
<td>57</td>
<td>64</td>
</tr>
<tr>
<td>From Netherlands</td>
<td>6</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>From associated States and overseas departments</td>
<td>184</td>
<td>149</td>
<td>3</td>
<td>27</td>
<td>4</td>
<td>1</td>
</tr>
<tr>
<td>Ivory Coast</td>
<td>85</td>
<td>77</td>
<td>—</td>
<td>7</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Madagascar</td>
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<td>30</td>
<td>—</td>
<td>1</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Cameroon</td>
<td>27</td>
<td>22</td>
<td>1</td>
<td>4</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Congo (Leo.)</td>
<td>22</td>
<td>2</td>
<td>1</td>
<td>15</td>
<td>4</td>
<td>—</td>
</tr>
<tr>
<td>Togo</td>
<td>8</td>
<td>7</td>
<td>—</td>
<td>1</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Other</td>
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<td>11</td>
<td>0</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>From other countries</td>
<td>481</td>
<td>58</td>
<td>231</td>
<td>84</td>
<td>46</td>
<td>62</td>
</tr>
<tr>
<td>Brazil</td>
<td>172</td>
<td>40</td>
<td>55</td>
<td>43</td>
<td>17</td>
<td>17</td>
</tr>
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<td>Colombia</td>
<td>65</td>
<td>2</td>
<td>46</td>
<td>2</td>
<td>5</td>
<td>10</td>
</tr>
<tr>
<td>El Salvador</td>
<td>44</td>
<td>—</td>
<td>41</td>
<td>—</td>
<td>1</td>
<td>2</td>
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<tr>
<td>Angola</td>
<td>35</td>
<td>1</td>
<td>5</td>
<td>2</td>
<td>5</td>
<td>22</td>
</tr>
<tr>
<td>Costa Rica</td>
<td>25</td>
<td>1</td>
<td>20</td>
<td>2</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>East Africa</td>
<td>25</td>
<td>1</td>
<td>21</td>
<td>1</td>
<td>—</td>
<td>2</td>
</tr>
<tr>
<td>Guatemala</td>
<td>21</td>
<td>—</td>
<td>17</td>
<td>1</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Haiti</td>
<td>17</td>
<td>5</td>
<td>—</td>
<td>7</td>
<td>4</td>
<td>—</td>
</tr>
<tr>
<td>Other</td>
<td>78</td>
<td>8</td>
<td>26</td>
<td>26</td>
<td>12</td>
<td>6</td>
</tr>
</tbody>
</table>

although in the case of France it applied only to about one-third of imports. Moreover, as the former German and Italian duties were specific, the new ad valorem tariff in these countries implies a considerable reduction in the incidence of the tariff levies because of the decline in coffee prices since 1958. Special provisions were designed to lessen the impact of the common tariff on part of the imports of the Benelux countries and Italy. French imports from non-associated countries continued to be subject to quantitative restrictions while those from associated producers formerly linked with France still enjoyed duty-free entry and special negotiated prices.

139. The alignment of the members’ tariffs, together with the application of reduced rates for imports on coffees from associated countries, has been proceeding since 1958, and by July 1963 the duties on imports from associated countries had been reduced by 40 per cent.

140. The new Convention of Association will eliminate all duties on coffee imports from associated countries as soon as it comes into operation. However, the Community also plans simultaneously to reduce the common external tariff on coffee to 9.6 per cent ad valorem, although part of the imports from third countries into the Benelux members will continue to benefit from special tariff concessions. To compensate associated countries for the lower preferential treatment on coffee and other commodities (see Appendix A), the Community will supply technical and financial assistance to improve and diversify the economies of its associates.

141. The new Convention sets out in considerable detail the conditions under which, in addition to expert advice, the Community will make available sizeable funds in the form of grants and loans. While it is not possible at this stage to indicate the amounts directly intended for the coffee sector, the Convention already specifically provides for assistance to bring coffee prices to world market levels. This action, which will start in the second half of 1963, should be completed in the second half of 1967, through gradual changes in prices of 15 to 35 per cent annually. The existing and newly created “Caisses de stabilisation” may benefit from loans to a limit of $50 million to even out the effects of fluctuations in international coffee prices.

Recent developments in trade

142. Table 28 shows the development of coffee imports into the Community since 1955-57. The striking feature has been the decline in the share of the associated countries since the entry into force of the Treaty of Rome and the first Convention of Association. While from 1955-57 to 1958-60 the share of coffees from the associated countries and territories remained at around 31 per cent of the total, it has declined since then to 27 per cent in 1962, non-associated countries taking the whole increase in the volume of imports of that year. On the other hand, exports from the associated countries to the major United States market, where such coffees enjoy no preference, increased over 30 per cent in the same period—in spite of the sizeable decline in the exports from areas formerly associated with Belgium due to non-economic reasons. The preference accorded to associated producing countries has been enforced only gradually and did not reach its full level during the life of the first Convention of Association, but there is as yet no statistical evidence of a shift in the pattern of coffee imports in favour of associated countries.

143. A simple arithmetic confrontation of the shares of associated and non-associated suppliers may not, however, be fully relevant, as coffee production in associated countries consists mostly of Robusta coffees, and the consumer preference for Arabicas, which remains strong in most of the Community, may have somewhat counteracted the effects the tariff preference could otherwise have had. In the case of Italy, however, the price element seems to have played a decisive part in the large increase in imports of Robusta from the Congo (Leopoldville), while in the Netherlands, the only other member of the Community which imports substantial quantities of Robustas—apart from France where import quotas continue in force—preference has been given to the non-protected imports from Angola, which has rapidly become the largest supplier of the Dutch market.

Longer-term prospects

144. The fact that the new common tariff on coffee will now be 9.6 per cent ad valorem instead of 16 per cent should stimulate the demand for coffee within the Community over and above what it otherwise would have been. However, the effect is unlikely to be large partly because the elasticity of demand in relation to price is relatively low. A rough calculation indicates that, under the present trade pattern, coffee intake in the Community might increase some 2 per cent as a result of such a reduction. On the other hand, this reduction of the common tariff will lower the tariff advantage of the associated producing countries. As a consequence, it might be expected that the

<table>
<thead>
<tr>
<th>Associated States</th>
<th>Other EEC</th>
<th>Other countries</th>
</tr>
</thead>
<tbody>
<tr>
<td>1955-57</td>
<td>8</td>
<td>8</td>
</tr>
<tr>
<td>1958-60</td>
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<td>8</td>
</tr>
<tr>
<td>1961</td>
<td>8</td>
<td>8</td>
</tr>
<tr>
<td>1962</td>
<td>8</td>
<td>8</td>
</tr>
</tbody>
</table>

**Table 28**

Coffee: Recent trends in EEC imports

<table>
<thead>
<tr>
<th>Year</th>
<th>EEC Imports</th>
<th>Associated States</th>
<th>Other EEC</th>
<th>Other countries</th>
</tr>
</thead>
<tbody>
<tr>
<td>1955-57</td>
<td>485</td>
<td>3</td>
<td>4</td>
<td>8</td>
</tr>
<tr>
<td>1958-60</td>
<td>573</td>
<td>4</td>
<td>8</td>
<td>8</td>
</tr>
<tr>
<td>1961</td>
<td>645</td>
<td>8</td>
<td>184</td>
<td>184</td>
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<tr>
<td>1962</td>
<td>673</td>
<td>8</td>
<td>481</td>
<td></td>
</tr>
</tbody>
</table>

**Percentage**

<table>
<thead>
<tr>
<th>Year</th>
<th>EEC Imports</th>
<th>Associated States</th>
<th>Other EEC</th>
<th>Other countries</th>
</tr>
</thead>
<tbody>
<tr>
<td>1955-57</td>
<td>100.0</td>
<td>1.2</td>
<td>0.6</td>
<td>0.7</td>
</tr>
<tr>
<td>1958-60</td>
<td>100.0</td>
<td>1.3</td>
<td>0.7</td>
<td>1.2</td>
</tr>
<tr>
<td>1961</td>
<td>100.0</td>
<td>27.3</td>
<td>31.2</td>
<td>31.3</td>
</tr>
<tr>
<td>1962</td>
<td>100.0</td>
<td>27.3</td>
<td>31.2</td>
<td>31.3</td>
</tr>
</tbody>
</table>
lower external tariff will lead to an expansion in non-associated imports of some 3 per cent or more.

145. The recent slowing down of the rate of economic development of the Community may have adverse effects on the expansion of coffee consumption in the EEC which, at the levels prevailing in the member countries, still shows some response to changes in prices and incomes. Consumption increases through price effects may, moreover, be limited by the maintenance of world export prices at least at their present levels under the International Coffee Agreement.

146. Some increases in consumption might be expected to result from the reduction or abolition of internal taxes in the Community. It has been estimated that, on the extreme and rather theoretical assumption that all taxes are abolished, the Community's coffee intake could increase by about 11 per cent of total imports in 1962. On the perhaps more realistic assumption of a gradual reduction of internal taxes by about 50 per cent over the coming years, an acceleration of the rate of increase of the Community's coffee imports of about 1 per cent per year up to 1970 might result.

147. In FAO's projections for 1970, based on the assumption of constant prices, it was estimated that import demand for coffee in the Community might reach about 810,000 tons at the beginning of the 1970s. However, considering possible reductions in the common tariff and internal taxes, import demand by that time might exceed 900,000 tons if, as assumed in the projection study, the economic development of the Community continues. Thus, prospects for all coffee suppliers of the Community, whether associated or not, seem to be quite good. In view of the existing surpluses (which may not be fully absorbed until at least the end of the 1960s), the coffee producing countries will find no difficulty in supplying the needs of the Community. It remains to be seen, however, whether the implementation of the Treaty of Rome and of the Convention of Association will lead to changes in the sources of imports.

148. The experience of the last five years suggests that the tariff preference accorded to associated countries has not been sufficient to divert trade away from third countries. On the other hand, none of the associated producing countries has yet been confronted with persistent surpluses and there has thus been no particular need for special efforts to exploit the market potentialities of the Community. However, if in the future associated countries find it difficult to dispose of their increasing supplies on the world market, the Community's preferential treatment may play a larger role than hitherto. On the other hand, there are two limitations to a possible diversion of trade. Firstly, most of the Community's requirements consist of Arabica coffees, which the associated countries can produce only in very small quantities; secondly, the export quota limitations under the International Coffee Agreement are likely to limit diversion of trade in favour of the associated countries on the EEC market unless compensated by offsetting movements in favour of other exporters in other markets.

COTTON

Place of the Community in world production and trade

149. Cotton cultivation in the EEC is confined to Southern Italy and production is small. As a consumer of cotton, however, the Community accounts for about 10 per cent of world mill consumption and is the largest single import market in the world. Greece, Turkey and the associated countries in Africa account for only a very minor part of world production but provide about 15 per cent of the cotton imported into the Community. Among the associated African countries, the Congo (Leopoldville) exports cotton mainly to Belgium and the Federal Republic of Germany, whilst the others send most of their cotton to France. The destination of Greek exports of cotton has varied considerably from year to year, with Yugoslavia and countries in eastern Europe competing with the Community as the principal market. Turkish cotton is sold mainly in the Community.

The EEC's policy for cotton

150. Under the Treaty of Rome, cotton is not a commodity for which the members of the Community are required to frame a common agricultural policy. Cotton is to have free entry into all member countries at the end of the transition period, and already there is no duty on cotton in any member country, since the duty in Italy was suspended in April 1963. The association of Greece and Turkey, and of a number of cotton producing countries in Africa does not imply preferential treatment for cotton imports from these countries in the Community. However, in a number of associated countries in Africa, prices of cotton have been guaranteed by stabilization funds and financial assistance has been given to them by France. This assistance has been made available regardless of the destination of cotton exports of the countries concerned. Under the new Convention of Association, aid will in future be provided by the Community as a whole and so far as cotton is concerned will be designed to assist producers and to facilitate diversification where necessary.

Recent developments in trade

151. Imports of cotton into the Community have shown a slightly rising tendency in recent years in line with the increase in mill consumption, mainly in Italy, although imports were considerably down in 1962. The share of the associated African countries has changed little in recent years, though at 6 per cent of the cotton imports of the Community in 1961 and 1962, it was a little less than in the fifties; the share of Greece and Turkey (10 per cent in 1962) has increased due to larger imports from Turkey. The share of non-associated countries as a group has remained relatively stable at 80 to 85 per cent. The main supplier is the United States, although its share in total EEC imports has tended to fluctuate as has also that of Mexico. Among other principal suppliers, the importance of Brazil and Peru has tended to increase, whilst since 1958 the Sudan has
TABLE 29
Pattern of EEC imports of cotton in 1962
(In thousands of metric tons)

<table>
<thead>
<tr>
<th></th>
<th>Total EEC</th>
<th>France</th>
<th>Germany (F.R.)</th>
<th>Italy</th>
<th>Belgium-Luxembourg</th>
<th>Netherlands</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total imports</td>
<td>920</td>
<td>257</td>
<td>286</td>
<td>220</td>
<td>87</td>
<td>70</td>
</tr>
<tr>
<td>of which:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>From EEC</td>
<td>8</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>0</td>
<td>8</td>
</tr>
<tr>
<td>Germany (F.R.)</td>
<td>5</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>5</td>
<td>—</td>
</tr>
<tr>
<td>Belgium-Luxembourg</td>
<td>3</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>3</td>
<td>—</td>
</tr>
<tr>
<td>Italy</td>
<td>0</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>0</td>
<td>—</td>
</tr>
<tr>
<td>From Greece and Turkey</td>
<td>98</td>
<td>12</td>
<td>27</td>
<td>43</td>
<td>14</td>
<td>2</td>
</tr>
<tr>
<td>Greece</td>
<td>22</td>
<td>8</td>
<td>3</td>
<td>10</td>
<td>—</td>
<td>1</td>
</tr>
<tr>
<td>Turkey</td>
<td>76</td>
<td>4</td>
<td>24</td>
<td>33</td>
<td>14</td>
<td>1</td>
</tr>
<tr>
<td>From other associated States and territories</td>
<td>54</td>
<td>38</td>
<td>8</td>
<td>—</td>
<td>5</td>
<td>—</td>
</tr>
<tr>
<td>Chad</td>
<td>21</td>
<td>16</td>
<td>1</td>
<td>—</td>
<td>4</td>
<td>—</td>
</tr>
<tr>
<td>Congo (Leo.)</td>
<td>10</td>
<td>—</td>
<td>6</td>
<td>—</td>
<td>4</td>
<td>—</td>
</tr>
<tr>
<td>Cameroon</td>
<td>10</td>
<td>9</td>
<td>1</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Central African Republic</td>
<td>8</td>
<td>8</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Other</td>
<td>5</td>
<td>5</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>From other countries</td>
<td>760</td>
<td>207</td>
<td>251</td>
<td>177</td>
<td>65</td>
<td>60</td>
</tr>
<tr>
<td>United States</td>
<td>190</td>
<td>52</td>
<td>30</td>
<td>69</td>
<td>20</td>
<td>19</td>
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<tr>
<td>Mexico</td>
<td>119</td>
<td>40</td>
<td>40</td>
<td>30</td>
<td>3</td>
<td>6</td>
</tr>
<tr>
<td>Brazil</td>
<td>97</td>
<td>18</td>
<td>50</td>
<td>6</td>
<td>12</td>
<td>10</td>
</tr>
<tr>
<td>Peru</td>
<td>53</td>
<td>10</td>
<td>30</td>
<td>4</td>
<td>5</td>
<td>4</td>
</tr>
<tr>
<td>Sudan</td>
<td>48</td>
<td>8</td>
<td>22</td>
<td>18</td>
<td>—</td>
<td>0</td>
</tr>
<tr>
<td>UAR (Egypt)</td>
<td>38</td>
<td>15</td>
<td>8</td>
<td>13</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Syria</td>
<td>35</td>
<td>22</td>
<td>5</td>
<td>7</td>
<td>—</td>
<td>2</td>
</tr>
<tr>
<td>USSR</td>
<td>31</td>
<td>6</td>
<td>14</td>
<td>9</td>
<td>2</td>
<td>—</td>
</tr>
<tr>
<td>Other</td>
<td>149*</td>
<td>36</td>
<td>52</td>
<td>21</td>
<td>22</td>
<td>18</td>
</tr>
</tbody>
</table>

* Mainly: Nicaragua (18), Iran (17), Colombia (15), Nigeria (13), Kenya and Uganda (10), Pakistan (6), India (3), El Salvador (2).

gained at the expense of the UAR as a supplier of extra long staple.

Longer-term prospects

152. The longer-term prospects for cotton imports into the Community depend on the consumption of apparel fibres in it, on the share of cotton in that consumption and on its external trade in cotton textiles. On the assumptions set out in recent FAO projections for 1970, consumption of cotton, wool and man-made fibres in the Community around 1970 was projected at between 35 and 41 per cent above that of 1957-59, while imports of raw cotton into western Europe as a whole were likely to be at about the same order of magnitude in 1970 as in 1957-59. This projected stability of imports reflects both the competition of man-made fibres and a decline in exports of cotton textiles, factors affecting the Community as well as other countries in western Europe.

153. The importance of competition from man-made fibres may be seen in the production statistics of recent years. Whilst mill consumption of cotton in the Community in 1961 and 1962 averaged 7 per cent larger than in 1955-57, production of rayon and acetate yarn and staple (cellulosic fibres) was 13 per cent up, and that of synthetic yarn and staple 35 per cent larger. Further increases in production of man-made fibres in the EEC may be expected. In view of their cheapness and of recent technological advances, production of cellulosic fibres may well expand at a more rapid rate than in the past few years, and the production of synthetic fibres may well maintain its recent high annual rate of increase of about 30 per cent. Nevertheless, consumption of cotton in the Community is likely to continue to increase and although the loss of markets to man-made fibres may well continue, this may be checked by technical improvements affecting cotton.
FRUIT AND VEGETABLES

154. EEC Regulation No. 23 aims at the gradual establishment of a common organization for the fruit and vegetable sector. Apart from the eventual abolition of customs duties on trade in fruit and vegetables between member countries, as envisaged in the Treaty of Rome, the regulation provides for the introduction of common quality standards, the adoption of a time-table for the complete liberalization of trade between member countries, and for safeguard measures against imports from other countries (including, during the transition period, other member countries). Provision is also made for the eventual establishment of common rules concerning the operation of markets and commercial transactions. The regulation covers all fresh vegetables (Item 07.01 of the Common External Tariff, with the exception of potatoes) and the following fruits: citrus, figs (fresh and dried), grapes (fresh and dried), almonds, hazelnuts, walnuts, etc., apples, pears and quinces (fresh), stone fruit (fresh), berries (fresh) and other fruits (melons, pomegranates, persimmons, etc.). However, for the time being, the special measures laid down in Regulation No. 23 apply only to those commodities for which common quality standards have already been established.

155. For the remaining commodities the general provisions of the Treaty of Rome, in conjunction with existing national regulations, will continue to apply, although they will also be affected by the various agreements of association with African and other European countries. The same criteria apply to tropical fruits, such as pineapples, bananas, tropical nuts, dates, mangoes, etc., as well as to frozen and preserved fruits, fruit peels and dried fruits (i.e., dried prunes, peaches, apricots, apples and pears) which are not covered by Regulation No. 23.

156. From the point of view of international trade the fruits and vegetables covered by the common agricultural policy can broadly be classified into three groups:

(1) Commodities produced in large quantities throughout the EEC which mainly move in intra-Community trade. This category includes all the vegetables and most of the deciduous fruits and berries.

(2) Produce which the importing countries of EEC obtain from within the Community (from Italy and, to a lesser extent, France) and the associated countries of the Mediterranean area: i.e. figs (fresh and dried); fresh grapes, raisins and currants; almonds, hazelnuts, walnuts; other fruit, e.g., melons, etc.

(3) Produce, essentially citrus, which is mainly imported from third countries.

157. The measures now adopted and gradually being introduced will have a differing impact on trade between Community members, their associates and third countries according to the grouping. Produce listed in group 2 for example (except table grapes) enjoys only the preference afforded by the common external tariff, which is at present about 8 per cent for most of this category. With regard to the dried vine-fruit market, the association agreement with Greece contains a declaration by the Community that it does not envisage the establishment of a common organization. However, in a special protocol it is agreed that up to the end of the twelve-year transition period fixed in the agreement, the EEC will have to obtain prior Greek approval for any decrease exceeding 20 per cent of the common tariff rate on dried vine fruit which was in effect on 1 October 1960.

158. In the long run the effects of the Common Market on the international fruit and vegetable trade will probably be most acutely felt in the third category. Emphasis has therefore been given to the major commodity group in this sector, namely citrus fruit. It also seemed desirable to discuss bananas, which are not covered by Regulation No. 23, since the impact of the EEC's policy on the trade of third countries could be significant.

BANANAS

Place of the Community in world production and trade

159. Commercial output of bananas and world trade in bananas have shown a marked upward trend in recent years. World imports have increased by about 1 million tons or 33 per cent since the mid-fifties. The largest importing area is North America which on average accounts for about half of world imports, with the EEC countries as a group constituting the second largest market. However, the rate of increase in the EEC has been much higher than in North America and the world as a whole. Within the EEC, the Federal Republic of Germany and France account for about 75 per cent of total imports with a fairly high per caput consumption of about 8 kg per annum in each country, whilst in the Benelux countries, per caput consumption is slightly less (6 to 7 kg). Italian consumption is still low (about 2.5 kg per head in 1962) but there has been a remarkable increase in Italian imports during the past few years. In France, imports are subject to licence and have to date been drawn almost entirely from overseas departments and associated countries of the franc zone; similarly the Italian State Monopoly has until recently purchased almost exclusively from Somalia. The Federal Republic and the Benelux countries on the other hand mainly import from Latin America.

The EEC's policy for bananas

160. Under the provisions of the Rome Treaty, the common external tariff will be the only means...

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26 The only case in which the safeguard clause according to article 10 of Regulation No. 23 has been invoked so far, leading to the temporary suspension of imports from all sources, was that of table grapes by Belgium in October 1962. In a number of other cases, imports into member countries of the Community were suspended in accordance with article 44 of the Treaty and the decision of the Council of Ministers of 4 April 1962 concerning minimum prices.

27 Apples (excluding cider), pears, plums, peaches, apricots, cherries, strawberries, table grapes, oranges, mandarins, clementines, lemons, cauliflower, artichokes, carrots, peas, beans, onions, spinach, endives, lettuce and various salad vegetables, chicory, tomatoes.

28 Peaches and apricots are difficult to assign to any of the two groups: they belong to both categories.
of protecting the interests of associated producing countries and overseas departments. This tariff, to be applied by the end of the transition period (1970), has been fixed at 20 per cent ad valorem, whilst during the same period, the duties on imports from associated countries will be gradually abolished.

161. Proposals put forward during the 1962 negotiations between the Six and the associated countries for a 50 per cent reduction in the common external tariff were not adopted. Special provision has been made for the Federal Republic which has been granted a duty-free quota under a protocol to the Rome Treaty. Above-quota imports will ultimately be subject to the full external tariff, although the Federal Republic may apply to the Commission each year for an exemption. However, the Convention of Association states that before any such exemption can be granted, associated exporters must be consulted to determine whether they can supply all or part of the additional quantities requested.

162. As a result of the first alignment toward the common external tariff on 1 January 1962, tariff rates on imports from third countries were raised in the Federal Republic from nil to 6 per cent and in the Benelux countries from 15 to 16.5 per cent, reduced in Italy from 36 to 31 per cent and remained unchanged in France at the 20 per cent rate of the common external tariff. In July 1963, a further reduction of 10 per cent took place in the rate applied to imports from associated countries, making a total reduction to date of 40 per cent on the rates in force on 1 January 1957.

163. Thus associated countries and territories already enjoy a substantial tariff preference over third countries. Imports from French overseas departments and other countries of the franc zone continue to be admitted into France free of duty, the same applying to Italian imports from Somalia and Belgian imports from the Congo (Leopoldville). Equally important are the quantitative restrictions imposed by France and the operation of the Italian State Monopoly. In France, imports from third countries and associated countries not members of the franc zone are subject to quotas and in effect such imports are negligible. In Italy, imports are exclusively dealt with by the State banana monopoly which has long-term contracts with Somalia, although the EEC Commission has requested the Italian Government that the monopoly should take at least minimum quantities from other associated countries.

Recent developments in trade

164. As Table 32 indicates, banana imports into the EEC have more than doubled since the mid-fifties.

The quantities requested in 1963 were 13,000 tons from other associated countries and 3,600 tons from overseas departments. Italian imports in 1962 totalled 135,000 tons.

### Table 31
**Bananas: Pattern of EEC imports in 1962**
(In thousands of metric tons)

<table>
<thead>
<tr>
<th>Country</th>
<th>Total EEC</th>
<th>France</th>
<th>Germany (F.R.)</th>
<th>Italy</th>
<th>Belgium-Luxembourg</th>
<th>Netherlands</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total imports</td>
<td>1396</td>
<td>398</td>
<td>467</td>
<td>135</td>
<td>68</td>
<td>71</td>
</tr>
<tr>
<td>of which:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>From associated States and overseas departments</td>
<td>518</td>
<td>392</td>
<td>5</td>
<td>109</td>
<td>11</td>
<td>1</td>
</tr>
<tr>
<td>Martinique</td>
<td>254</td>
<td>128</td>
<td>11</td>
<td>11</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Guadeloupe</td>
<td>112</td>
<td>89</td>
<td>4</td>
<td>18</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Somalia</td>
<td>77</td>
<td></td>
<td>77</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cameroon</td>
<td>52</td>
<td>52</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Congo (Leo.)</td>
<td>15</td>
<td>5</td>
<td>1</td>
<td>9</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td>8</td>
<td>3</td>
<td>3</td>
<td>2</td>
<td></td>
<td></td>
</tr>
<tr>
<td>From other countries</td>
<td>621</td>
<td>6</td>
<td>462</td>
<td>25</td>
<td>57</td>
<td>70</td>
</tr>
<tr>
<td>Ecuador</td>
<td>243</td>
<td>200</td>
<td>110</td>
<td>19</td>
<td>33</td>
<td></td>
</tr>
<tr>
<td>Central America</td>
<td>162</td>
<td>133</td>
<td>8</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Colombia</td>
<td>35</td>
<td>19</td>
<td>10</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Canary Islands</td>
<td>6</td>
<td>6</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Israel</td>
<td>22</td>
<td></td>
<td>10</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Table 32
**Bananas: Recent trends in EEC imports**

<table>
<thead>
<tr>
<th>Year</th>
<th>Total imports of EEC</th>
<th>Associated States and overseas departments</th>
<th>Other countries</th>
</tr>
</thead>
<tbody>
<tr>
<td>1953-55</td>
<td>555</td>
<td>313</td>
<td>242</td>
</tr>
<tr>
<td>1958-60</td>
<td>973</td>
<td>431</td>
<td>542</td>
</tr>
<tr>
<td>1961</td>
<td>1,076</td>
<td>466</td>
<td>612</td>
</tr>
<tr>
<td>1962</td>
<td>1,139</td>
<td>518</td>
<td>621</td>
</tr>
</tbody>
</table>

(Thousand metric tons)

<table>
<thead>
<tr>
<th>Year</th>
<th>Total imports of EEC</th>
<th>Associated States and overseas departments</th>
<th>Other countries</th>
</tr>
</thead>
<tbody>
<tr>
<td>1953-55</td>
<td>100</td>
<td>56</td>
<td>44</td>
</tr>
<tr>
<td>1958-60</td>
<td>100</td>
<td>44</td>
<td>43</td>
</tr>
<tr>
<td>1961</td>
<td>100</td>
<td>43</td>
<td>45</td>
</tr>
<tr>
<td>1962</td>
<td>100</td>
<td>45</td>
<td>45</td>
</tr>
</tbody>
</table>

(Percentage)

---

29 This quota will ultimately be equivalent to 75 per cent of imports from third countries in 1956 (approximately 290,000 tons) plus 50 per cent of the difference between this basic tonnage and imports from all sources in the preceding calendar year.
The most significant development has been the large rise in imports into the Federal Republic from 174,000 tons in 1953-55 to 467,000 tons in 1962. These imports were drawn almost entirely from third countries. However, in 1962 the upward trend in Federal German imports was halted at least temporarily, although it is not possible to say whether this was a result of the uncertainty which prevailed earlier in the year regarding the granting of an additional duty-free quota from third countries or of the abundant domestic supplies of other fresh fruit available in the autumn of 1962.

165. Striking increases have also occurred in imports into Italy (imports have more than doubled since 1958) and the Netherlands. Until 1962 almost the entire increase in Italian imports came from Somalia, still the largest single supplier, but in that year the Italian monopoly relaxed its purchasing policy as far as other associated countries were concerned, and the greater part of the 30 per cent over-all gain in imports came from the Ivory Coast, Guadeloupe and Martinique, although this was no doubt partly due to the fact that flood damage had reduced supplies in Somalia. Imports into France, almost entirely from franc zone sources, have increased by about 50 per cent since the mid-fifties and those into Belgium-Luxembourg, mainly from third countries, by 45 per cent.

Longer-term prospects

166. During the fifties the average rate of increase in imports into the EEC exceeded 10 per cent per annum and, to date in the sixties, has averaged about 6 per cent. Per caput consumption in France and the Federal Republic is now above that of other western European countries though still short of the high United States figure of about 10 kg per annum. The rate of increase in imports into the Federal Republic can probably be expected to decline, although further absolute gains can be expected. Similarly, further steady rises would appear probable in France and the Benelux countries, whilst more spectacular gains may be expected in Italy, where per caput consumption is still low.

167. The effect of the EEC tariff policies could lead to a fall in prices of bananas in Italy and France, which would bring about further increases in banana imports. Through the operation of the State monopoly, the retail price of bananas in Italy is particularly high (about $560 per ton for first quality fruit compared with $365 in Germany and $388 in France) probably reflecting the policy of encouraging consumption of homegrown fruits.

168. In view of the rather high price elasticity of demand for bananas, any significant decline in retail prices could be expected to result in further substantial increases in Italian consumption. On the other hand, the 20 per cent external tariff could have the opposite effect on the level of imports into the Benelux countries and the Federal Republic, even allowing for a substantial duty-free quota for the latter. Bananas are in direct competition with other fresh fruits in these markets, in particular with citrus fruits, apples, pears, peaches, grapes and supplies of these are expected to increase considerably during the current decade. Any upward pressure on banana prices is therefore likely to have adverse effects on consumption.

169. The common external tariff could eventually result in the Benelux and the Federal Republic obtaining a greater proportion of their imports from associated countries, although this seems doubtful, in the near future at least, as on a landed c.i.f. import basis the present cost advantage of Latin American bananas is considerably more than 20 per cent. In addition, there is an established consumer preference in these countries for the Latin American varieties.

170. On the production side, it would appear feasible to increase production substantially in the associated countries of West Africa, although a number of difficulties would have to be overcome, such as the prevalence of disease and problems of internal transport, shipping and marketing; above all there would be a need to reduce production, transport, and marketing costs to a level comparable with those of the Latin American suppliers. Again, the introduction of new varieties into markets with well-established consumer tastes (Benelux and the Federal Republic) would entail changes all along the distribution chain because of the different ripening techniques and handling methods required. On the limited evidence available, it would appear that Somalia would have great difficulty in achieving production costs similar to Latin American countries. Climatic and soil conditions in that country are not very favourable for banana cultivation, distances to the port are in general high and port equipment still inadequate. In addition, sea transport to Italy, Somalia's principal market, is slow and costly.

CITRUS FRUIT

Place of the Community in world production and trade

171. Italy is the only major citrus producer among the Six, but the associated countries Greece and Turkey are also large producers. A special situation prevails in the case of Algeria which continues to enjoy free access to Community markets, while Morocco and Tunisia have substantial duty-free quotas on the French market. In most of these countries citrus is a major export crop. However, although Italian production has been expanding in recent years, the percentage of the crop exported has been declining due to substantial increases in domestic consumption. During the period 1959/60-1961/62, exports accounted for approximately one-third and one-quarter of total production in Italy and Greece respectively, but were still low (6 per cent) in Turkey. By contrast, in Algeria, Morocco and Tunisia, the proportion exported is much higher, accounting for about two-thirds, three-quarters and one-half respectively.

172. Italy, Greece and Turkey together have in recent years supplied 10 per cent of world exports of winter oranges and 60 per cent of exports of lemons.

41 An additional quota of 130,000 tons became effective on 15 August, 1962, making the total duty-free quota for the year 483,000 tons. For 1963, the total duty-free quota has been fixed at 443,000 tons.
If Algeria, Morocco and Tunisia were added, these percentages would increase to 35 and 63 respectively. However, marked differences exist in their export patterns. Italy directs only part of its exports to the EEC, the remainder going to other western European countries, notably Sweden, Switzerland and Austria, and also eastern Europe and the USSR. The bulk of Greek exports goes to eastern European destinations. On the other hand, Algeria and Tunisia send almost all their exports to the French market and the bulk of those of Morocco also goes to the Community.

173. The Benelux countries, France and the Federal Republic of Germany rely on imports for their entire requirements. These five countries now provide a market for over 2 million tons of citrus fruit annually, more than half of total world imports. The Community is thus on balance a net importing area, gross imports being almost twice as high as gross exports; as a whole it accounts for approximately 15 per cent of world consumption of citrus fruit.

### Table 33

**Pattern of EEC citrus imports in 1961/62**

<table>
<thead>
<tr>
<th></th>
<th>Total EEC</th>
<th>France</th>
<th>Germany (F.R.)</th>
<th>Belgium, Luxembourg</th>
<th>Netherlands</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oranges and tangerines</td>
<td>1817</td>
<td>688</td>
<td>786</td>
<td>129</td>
<td>214</td>
</tr>
<tr>
<td>Lemons and limes</td>
<td>230</td>
<td>74</td>
<td>134</td>
<td>13</td>
<td>9</td>
</tr>
<tr>
<td>Grapefruit</td>
<td>70</td>
<td>25</td>
<td>29</td>
<td>7</td>
<td>9</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>2,117</strong></td>
<td><strong>787</strong></td>
<td><strong>949</strong></td>
<td><strong>149</strong></td>
<td><strong>232</strong></td>
</tr>
</tbody>
</table>

of which:

| From other EEC countries | 483 | 283 | 192 | 2 | 7 |
| Algeria                   | 277 | 257 | 19  | — | 1 |
| Italy                     | 206 | 26  | 173 | 2 | 6 |
| From associated States and territories | 9 | — | 7 | — | 2 |
| Greece                    | 3 | — | 3  | — | — |
| Turkey                    | 3 | — | 3  | — | — |
| Surinam                   | 3 | — | 1  | — | 2 |
| From Morocco and Tunisita | 317 | 186 | 111 | — | 19 |
| From other countries     | 1,308 | 318 | 639 | 147 | 204 |
| Spain                     | 921 | 228 | 489 | 91 | 113 |
| Israel                    | 102 | 9   | 62  | 14 | 17 |
| South Africa              | 102 | 33  | 48  | 13 | 8  |
| United States             | 80  | 26  | 15  | 12 | 27 |
| Brazil                    | 57  | 20  | 15  | —  | 22 |
| Other                     | 46  | 2   | 10  | 17 | 17 |

* Included under EEC in present table in view of its free access to the Community market.

The **EEC’s policy for citrus fruit**

174. Apart from the safeguard measures now in force, the main advantage to Community producers will continue to lie in the considerable preference they enjoy inside the common external tariff, which will be introduced in successive stages by 1 January 1970. The application of the common external rates implies substantial increases in the Federal Republic and the Benelux countries (except for lemons), both of which are heavily dependent on citrus supplies from third countries. Although France will be making large reductions in its tariff, it imports much less citrus from third countries. Thus, assuming a continuation of the present trade structure, the obstacles to citrus imports into the Community will increase.

175. The first adjustment in the “external” rates of member countries took effect on 1 January 1962 along with the third 10 per cent reduction in the EEC “internal” rates for citrus fruit, the latter bringing the over-all reduction from the January 1957 base rates to at least 30 per cent. Internal tariffs were reduced by another 10 per cent on 1 July 1963. Consequently, the preferential margins on imports from Italy, Greece and Algeria are now significant. Turkey will also enjoy these preferences when its agreement of association is ratified.

176. The first steps toward the establishment of the Common Market organization in the fruit and vegetable sector, as provided for in Regulation No. 23 (see above), were taken on 30 July 1962, the date on which common quality standards for some 21 fruit and vegetables (including oranges, mandarins, tangerines and lemons) became effective. Imports from member countries and third countries in Europe and the Mediterranean region must comply with these standards, whilst imports from other third countries must show at least equivalent quality characteristics. For the latter, this stipulation will remain in force until the question of equivalences between the various EEC standards and existing national regulations in the other countries concerned has been settled. In addition, effective 1 November 1963, France has also abolished...
Table 34
Reference prices for oranges, mandarins, tangerines and lemons
valid until 1 July 1964
(In US dollars per 100 kg)

<table>
<thead>
<tr>
<th>Month</th>
<th>Group I</th>
<th>Group II</th>
<th>Mandarins and tangerines</th>
<th>Lemons*</th>
</tr>
</thead>
<tbody>
<tr>
<td>July</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>11.0</td>
</tr>
<tr>
<td>August</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>12.1</td>
</tr>
<tr>
<td>September</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>15.3</td>
</tr>
<tr>
<td>October</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>12.5</td>
</tr>
<tr>
<td>November</td>
<td>8.0</td>
<td>14.1</td>
<td>10.6</td>
<td></td>
</tr>
<tr>
<td>December</td>
<td>11.0</td>
<td>11.6</td>
<td>11.4</td>
<td></td>
</tr>
<tr>
<td>January</td>
<td>12.0</td>
<td>11.8</td>
<td>12.2</td>
<td></td>
</tr>
<tr>
<td>February</td>
<td>12.0</td>
<td>15.1</td>
<td>11.3</td>
<td></td>
</tr>
<tr>
<td>March</td>
<td>12.0</td>
<td>19.4</td>
<td>10.6</td>
<td></td>
</tr>
<tr>
<td>April</td>
<td>13.0</td>
<td>11.0</td>
<td>11.6</td>
<td></td>
</tr>
<tr>
<td>May</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>11.0</td>
</tr>
<tr>
<td>June</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>11.0</td>
</tr>
</tbody>
</table>

* For each species the reference price is for fruits of Class I quality.
Group I consists of varieties sanguinello, sang-sang, valencia, navel, shumouti, salustiana and similar.
Group II consists of varieties biondo, blanca, comuna, castellana and similar.

Table 35
Recent trends in EEC imports of citrus fruit

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>1,469</td>
<td>1,789</td>
<td>2,117</td>
<td></td>
<td></td>
</tr>
<tr>
<td>of which:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other EEC</td>
<td>390</td>
<td>438</td>
<td>483</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Associated States and territories</td>
<td>4</td>
<td>4</td>
<td>9</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Morocco and Tunisia</td>
<td>206</td>
<td>296</td>
<td>317</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other countries</td>
<td>869</td>
<td>1,051</td>
<td>1,308</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

(Percentage)

<table>
<thead>
<tr>
<th>Year</th>
<th>100</th>
<th>100</th>
<th>100</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>of which:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other EEC</td>
<td>26.5</td>
<td>24.5</td>
<td>22.8</td>
<td></td>
</tr>
<tr>
<td>Associated States and territories</td>
<td>0.3</td>
<td>0.3</td>
<td>0.4</td>
<td></td>
</tr>
<tr>
<td>Morocco and Tunisia</td>
<td>14.0</td>
<td>16.5</td>
<td>15.0</td>
<td></td>
</tr>
<tr>
<td>Other countries</td>
<td>59.2</td>
<td>58.7</td>
<td>61.8</td>
<td></td>
</tr>
</tbody>
</table>

This is the main body set up under Regulation No. 23 for the administration of the organization of markets and consists of representatives of member States under a chairman provided by the Commission.

178. Reference prices have so far been fixed for oranges, mandarins, tangerines and lemons, as well as apples, pears, plums, peaches, table grapes and tomatoes. Those adopted for citrus for 1962/63 were relatively low, and there were no major changes in the prices set for the 1963/64 marketing year. The following reference prices in Table 34 are valid until 1 July 1964.

179. As Table 35 shows, citrus imports into the EEC have increased very rapidly since the mid-fifties.

Recent developments in trade

180. While quotas at reduced external rates have been granted in the case of grapefruit, the Commission has, however, not acceded to requests from the German Government for the granting of customs quotas for oranges and tangerines, or alternatively, for a temporary curtailment of tariff increases. The reasons given for this refusal were that such a concession would retard the development of citrus production within the Community and disturb the relationship of citrus to other fruits, and that the incidence of the tariff increases on consumer prices was only small. The Federal Government appealed against this decision to the High Court of the Community, the appeal being rejected on 15 July 1963.

181. Paragraph 3 of Article 25 makes provision for the suspension or lowering of the external tariff, or the establishment of tariff free quotas for agricultural commodities provided that such action does not lead to market disturbances.
Between 1955/56-1957/58 and 1961/62, they rose by 44 per cent, a much faster increase than that of world imports. The most spectacular rises took place in the Federal Republic and the Netherlands; in France too, the growth has been substantial but was on a lower scale in Belgium-Luxembourg. During recent years, three-quarters of the Community's takings have been drawn from third countries (including about 15 per cent from Morocco and Tunisia) and the balance from Italy, Algeria, Greece and Turkey. The Benelux countries receive almost their entire supplies from third countries, while the Federal Republic takes about 25 per cent from other EEC members and associated countries. France, on the other hand, imports the bulk of its requirements from North African sources, but still takes substantial quantities (about 200,000 to 300,000 tons annually) from third countries, mainly Spain. On balance, Spain is the Community's main supplier of winter oranges, followed by Morocco and Tunisia combined. Considerable quantities of summer oranges are imported from outside the Community, notably from South Africa, Brazil and the United States. The situation is different for lemons, where supplies from Italy predominate, although Spanish and United States lemons also have a considerable share of the market.

182. On the basis of the available statistics, the traditional trade pattern has not so far changed as a result of the implementation of the initial steps toward the common external tariff and the common organization of the internal market. On the contrary, takings from third countries show an upward trend and were particularly heavy in 1961/62, the first season in which significant preferential margins became effective. Also, the introduction of common quality standards and of the reference price system has not yet led to any marketing difficulties. While the application of the common standards to third countries outside Europe and the Mediterranean area has been held in abeyance until an understanding has been reached on equivalences, the particular seasonal circumstances which prevailed in 1962/63 did not warrant any application of the reference price provisions.

Longer-term prospects

183. Over a longer period, production within the Community can be expected to expand significantly as a result of the strong incentive to new investment in citrus in the area covered by the common external tariff and the reference price system on the one hand, and the large balance of requirements which today is supplied by third countries on the other. However, even allowing for the most optimistic assumptions regarding the probable rate of production expansion in Italy and associated countries, the Community will certainly remain a net importer of citrus fruits, particularly oranges and grapefruit. In these circumstances the influence of the common external tariff on prices and consumption appears to be the most important for third countries. The recent large increases in the demand for citrus fruit have been mainly due to a fall in the relative prices for citrus and further reductions may be necessary to maintain this trend. Therefore, if third countries should attempt to pass part or all of the new tariff burden on to importers, this would result in an upward pressure on prices with adverse effects on consumption. If, on the other hand, they should attempt to bear the full tariff burden themselves by lowering their landed selling prices, the extent of such action is limited by the reference price provisions and possible additional levies.

184. For third countries, the crucial question is whether or not access to Community markets will be hampered, or whether their rate of growth of exports will be adversely influenced. Although the Community has expressly aimed at a liberal trade and market policy for fruit and vegetables, nevertheless all the machinery is present to enable strong market intervention and it still remains to be seen how the regulations will be applied. It can be expected that countries with major import interests will continue to advocate a liberal interpretation of the regulations and will continue to press for a lowering of trade restrictions. Any development in the opposite direction would have adverse effects on total EEC citrus consumption. While the citrus industries of third countries would suffer most severely, such policies might also adversely affect the long-term interests of producers within the Community by reducing the total demand for citrus fruit, or at least limiting its growth.

APPENDICES

A. The New Convention of Association

185. The new Convention between the EEC States and their 18 African associates \(^{35}\) for the five years 1963-1967, which had been drawn up in 1962, was signed at Yaoundé (Cameroon) in July, 1963. Over the period covered by the Convention, the EEC will provide aid totalling $730 million \(^{36}\) to the countries concerned, of which $620 million will be in the form of grants, $46 million in the form of special loans and $64 million in loans from the European Investment Bank. \(^{37}\) A total of $500 million will be made available for economic and social investment and for technical assistance of various kinds. The remaining $230 million will be devoted to measures, including aids to the diversification of agricultural production, which will enable the countries concerned to market their produce at world prices rather than the preferential prices which most of them have received hitherto, in France in particular. \(^{38}\) For coconuts (dehydrated pulp), pepper, palm oil, cotton \(^{39}\) and gum arabic, the

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\(^{35}\) Burundi, Cameroon, Central African Republic, Chad, Congo (Brazzaville), Congo (Leopoldville), Dahomey, Gabon, Ivory Coast, Madagascar, Mali, Mauritania, Niger, Rwanda, Senegal, Somalia, Togo and Upper Volta.

\(^{36}\) France and the Federal Republic of Germany will provide $240 million each, Italy $100 million and the Benelux countries the remaining $150 million. Under the first Convention of Association for the years 1958-1962, aid totalling $581 million was provided for, of which some $436 million have so far been earmarked for 326 projects.

\(^{37}\) A further $70 million will be given by the EEC to the dependent associated territories.

\(^{38}\) They will, however, continue to receive a tariff preference on the EEC market.

\(^{39}\) Cotton has always been marketed at world prices, but prices paid to producers have been under price regulation schemes in a number of countries.
alignment to world market levels is to be undertaken in 1963/64 and for rice, sugar and oilseeds from the initiation of the common agricultural policy for these products.  

For coffee, where the problem assumes most importance, the alignment is to begin in the 1963/64 season and is to be completed not later than the 1967/68 season. Since Burundi, Congo (Léopoldville), Rwanda and Somalia already market their products at competitive prices, their share in the sum of $230 million mentioned above totals only $32 million. Gabon, Upper Volta, and Mauritania, which have undertaken to effect marketing at competitive prices from the entry into force of the Convention, will receive $15 million. The bulk of the allocation for production aids, diversification, etc., will go to the remaining eleven countries.

Another important feature of the Convention is the duty-free access to the Community market which the associated States will receive for their exports. At the same time, there will be a reduction in the EEC's common external tariff on a number of tropical products from third countries. The new effective rates, with the original ones and the percentage reductions involved, are shown in Table 36. These tariffs are to be applied to other countries as soon as the Convention enters into force, rather than progressively over the transition period.

In a protocol to the Convention, the Benelux countries have agreed to forego their duty-free quotas on imports of unroasted coffee from third countries. They will now gradually impose the common external tariff of 2 per cent up to 1965, 5 per cent up to 1967 and 9.6 per cent subsequently. The Six have undertaken to consult with the African countries before agreeing to any duty-free imports of bananas into the Federal Republic of Germany additional to those provided for in a further protocol to the Rome Treaty.

On their side, the associated states undertake to apply the same tariff regime to all member countries of the Community. Each associated State is entitled to maintain or introduce import duties and taxes where necessary to safeguard its economic development, its industrialization needs and for fiscal purposes. Should such import duties and taxes prove insufficient to meet the needs of economic development or to overcome certain difficulties specified in Article 6 of the Convention, associated states may introduce quantitative restrictions. The adoption and repeal of such measures are regulated by Protocol 2 to the Convention.

Equality of treatment in the associated states for citizens of EEC countries in respect of movement of funds on capital or current account is provided for.

The Convention is also open for admission to third countries. New associated States would enjoy the same rights and undertake the same obligations as the original signatories. The new membership should not detract in any way from the financial or other advantages enjoyed by the present associated States.

The Convention also binds itself to respect the associated States' interests when determining their agricultural policy.

The Convention is open for admission to third countries. New associated States would enjoy the same rights and undertake the same obligations as the original signatories. The new membership should not detract in any way from the financial or other advantages enjoyed by the present associated States.

B. THE EEC'S TRADE WITH ITS ASSOCIATES AND WITH NON-INDUSTRIAL COUNTRIES

The value of the total imports of the six EEC countries rose by 56 per cent between 1958 and 1962; however, as has been the experience in other industrial areas, there was a clear difference between the rate of growth in imports from other industrial countries (72 per cent over the four years) and those from non-industrial regions (19 per cent). This basic data is set out in Table 37, which also shows that the increase

<table>
<thead>
<tr>
<th>TABLE 36</th>
<th>Original and revised common external tariffs on tropical products of the EEC</th>
</tr>
</thead>
<tbody>
<tr>
<td>Product</td>
<td>Original CXT</td>
</tr>
<tr>
<td>Coffee</td>
<td>16</td>
</tr>
<tr>
<td>Cocoa beans</td>
<td>9</td>
</tr>
<tr>
<td>Tea</td>
<td>18</td>
</tr>
<tr>
<td>Pepper</td>
<td>20</td>
</tr>
<tr>
<td>Vanilla beans</td>
<td>15</td>
</tr>
<tr>
<td>Nutmeg</td>
<td>20</td>
</tr>
<tr>
<td>Pineapples</td>
<td>12</td>
</tr>
<tr>
<td>Coconuts</td>
<td>5</td>
</tr>
<tr>
<td>Cloves</td>
<td>20</td>
</tr>
</tbody>
</table>

Note.—Coffee: unroasted, not decaffeinated; cocoa: whole or broken, raw or roasted; tea: other than in containers of 3 kg or less; pepper: not crushed or ground; nutmeg and cloves: not crushed or ground; pineapples and coconuts: fresh. The reductions on all commodities, except coffee, cocoa and tea, were stated to be tentative.

* Subsequently reduced to nil.

<table>
<thead>
<tr>
<th>TABLE 37</th>
<th>Imports of the six EEC countries from industrialized and non-industrial regions (In billions of US dollars)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Year</td>
<td>Associated countries and territories and overseas departments*</td>
</tr>
<tr>
<td>-----------</td>
<td>----------------------------------------------------------</td>
</tr>
<tr>
<td>1958</td>
<td>1.55</td>
</tr>
<tr>
<td>1960</td>
<td>1.66</td>
</tr>
<tr>
<td>1961</td>
<td>1.77</td>
</tr>
<tr>
<td>1962</td>
<td>1.85</td>
</tr>
<tr>
<td>Jan.-Aug. 1962</td>
<td>1.33</td>
</tr>
<tr>
<td>Jan.-Aug. 1963</td>
<td>1.28</td>
</tr>
</tbody>
</table>

1962 as a percentage of 1958  119  119  119  172  156

* Including Algeria; excludes Greece and Turkey.

Total imports less imports from industrial regions (defined in footnote c) and the associated countries and territories and overseas departments of column 1.

Western and eastern Europe (including USSR), North America, Oceania, Japan and South Africa.

EEC's trade within the group of industrial countries also showed strong disparities. Thus between 1958 and 1962, intra-Community trade rose by 97 per cent, while imports from eastern Europe and the USSR increased by 77 per cent and those from non-industrialized western countries (defined in footnote c, Table 37) rose by only 51 per cent.
in EEC's imports from the associated countries and territories and the overseas departments rose at the same rate as the Community's imports from all other non-industrial areas.

193. At first sight this might appear to offer evidence that, within the group of non-industrial regions, the associated countries and territories and overseas departments have gained no advantage from their position of association.

194. Table 38 examines the data of Table 37 in rather more detail, and, from this second set of figures, the above hypothesis appears to be confirmed. Five points should be made in this connexion.

(1) A distinction must be made between the associated countries and territories and the overseas departments on the one hand, and Algeria, whose oil exports have grown considerably in the period under review on the other. EEC's imports from Algeria rose by 60 per cent between 1958 and 1962.

(2) In contrast, imports from the associated countries and territories and overseas departments were only 2 per cent higher in 1962 than in 1958.

(3) Within the group of non-associated non-industrial countries (i.e., column 2 of Table 37) further distinctions should be made. Firstly, Argentina and Uruguay are temperate-zone countries, few of whose export commodities compete directly with those of the associated countries and territories.

(4) Oil exporting countries, moreover, also by no means compete with the products of the associated countries and territories, and must be excluded from the comparison.

(5) Exclusion of Argentina, Uruguay and the oil exporting countries from the data for the non-industrial regions offers a rather different picture: the tropical exporters of Latin America succeeded in raising their exports to EEC by 34 per cent between 1958 and 1962.

195. Table 39 is largely self-explanatory and appears to bear out the conclusion reached above. Between 1958 and 1962 there was a small fall in the proportion of the total exports of the associated countries and territories and overseas departments moving to the EEC countries, from 76 per cent of their total trade to 74 per cent. While the importance of the EEC in the export trade of Cameroon and the Ivory Coast somewhat increased, its share in that of Senegal and the four countries of the Equatorial Customs Union has somewhat lessened over the past five years.

The commodity composition of trade

196. Tables 40 and 41 show respectively the importance of the EEC market for the associated countries and territories' principal agricultural commodity exports, and the proportion of the EEC's total imports of these commodities which has been taken from those same associates. The conclusions to be drawn from them cannot be wholly relied upon, because of the short time-period involved in relation to the length of time needed to alter the structure of tropical agricultural production and exports. However, Table 40 indicates that there was very little change between 1959 and 1962 in the four-fifths share of the associates' exports.

TABLE 38
Imports of the six EEC countries from selected non-Industrial regions, 1958 and 1960-August 63
(In billions of US dollars)

<table>
<thead>
<tr>
<th>Year</th>
<th>Algeria</th>
<th>Overseas EEC departments</th>
<th>Associated countries and territories</th>
<th>Argentina and Uruguay</th>
<th>Non-industrial oil exporters</th>
<th>Other Latin America</th>
<th>All other non-industrial regions</th>
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<tr>
<td>1958</td>
<td>0.47</td>
<td>0.12</td>
<td>0.96</td>
<td>0.39</td>
<td>1.67</td>
<td>0.89</td>
<td>2.45</td>
</tr>
<tr>
<td>1960</td>
<td>0.55</td>
<td>0.13</td>
<td>0.99</td>
<td>0.50</td>
<td>1.51</td>
<td>1.12</td>
<td>2.89</td>
</tr>
<tr>
<td>1961</td>
<td>0.66</td>
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<td>0.98</td>
<td>0.48</td>
<td>1.47</td>
<td>1.08</td>
<td>2.90</td>
</tr>
<tr>
<td>1962</td>
<td>0.76</td>
<td>0.13</td>
<td>0.97</td>
<td>0.65</td>
<td>1.60</td>
<td>1.20</td>
<td>2.98</td>
</tr>
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<td>Jan.-Aug.</td>
<td></td>
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<td></td>
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<tr>
<td>1962</td>
<td>0.50</td>
<td>0.10</td>
<td>0.73</td>
<td>0.44</td>
<td>1.30</td>
<td>0.89</td>
<td>1.67</td>
</tr>
<tr>
<td>Jan.-Aug.</td>
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<tr>
<td>1963</td>
<td>0.45</td>
<td>0.09</td>
<td>0.74</td>
<td>0.43</td>
<td>1.49</td>
<td>0.88</td>
<td>1.88</td>
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<tr>
<td>1962 as percentage of 1958</td>
<td>160</td>
<td>109</td>
<td>101</td>
<td>165</td>
<td>96</td>
<td>134</td>
<td>122</td>
</tr>
</tbody>
</table>

* Guadeloupe, Martinique, Reunion and French Guiana.

* Excludes Greece and Turkey.

* Excluding Congo (Leopoldville), where special circumstances have applied.

* Venezuela, Libya, Saudi Arabia, Iraq, Kuwait, Qatar, Bahrain and other Persian Gulf territories.

* Latin America excluding Argentina, Uruguay and Venezuela.
### Table 39

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
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</tr>
</thead>
<tbody>
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<td>144</td>
<td>177</td>
<td>181</td>
<td>67</td>
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<td>Mali, Mauritania, Senegal</td>
<td>137</td>
<td>115</td>
<td>140</td>
<td>137</td>
<td>89</td>
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<td>Equatorial Customs Union</td>
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<td>92</td>
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<td>125</td>
<td>80</td>
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<td>76</td>
<td>78</td>
<td>94</td>
<td>61</td>
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<tr>
<td>Cameroon</td>
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<td>103</td>
<td>98</td>
<td>103</td>
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<td>74</td>
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<tr>
<td>Overseas departments</td>
<td>94</td>
<td>100</td>
<td>107</td>
<td>102</td>
<td>86</td>
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<td><strong>TOTAL ABOVE</strong></td>
<td>788</td>
<td>752</td>
<td>857</td>
<td>866</td>
<td>76</td>
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<tr>
<td>Algeria</td>
<td>488</td>
<td>380</td>
<td>369</td>
<td>372</td>
<td>88</td>
</tr>
<tr>
<td>Congo (Leopoldville)</td>
<td>413</td>
<td>417</td>
<td>118</td>
<td>121</td>
<td>59</td>
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<tr>
<td>Curacao and Aruba</td>
<td>839</td>
<td>685</td>
<td>709</td>
<td>688</td>
<td>50</td>
</tr>
<tr>
<td>Greece</td>
<td>232</td>
<td>204</td>
<td>223</td>
<td>249</td>
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<tr>
<td>Turkey</td>
<td>264</td>
<td>338</td>
<td>347</td>
<td>381</td>
<td>34</td>
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<tr>
<td><strong>TOTAL ABOVE</strong></td>
<td>788</td>
<td>752</td>
<td>857</td>
<td>866</td>
<td>76</td>
</tr>
</tbody>
</table>

### Table 40

<table>
<thead>
<tr>
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<th></th>
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<tbody>
<tr>
<td>Coffee</td>
<td>117</td>
<td>121</td>
<td>131</td>
<td>104</td>
<td>72</td>
<td>70</td>
<td>70</td>
<td>67</td>
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<td>Oilseeds</td>
<td>79</td>
<td>76</td>
<td>77</td>
<td>52</td>
<td>69</td>
<td>78</td>
<td>73</td>
<td>70</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cocoa beans</td>
<td>91</td>
<td>77</td>
<td>74</td>
<td>52</td>
<td>69</td>
<td>78</td>
<td>73</td>
<td>70</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sugar</td>
<td>49</td>
<td>60</td>
<td>59</td>
<td>45</td>
<td>83</td>
<td>86</td>
<td>80</td>
<td>83</td>
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<td>Bananas</td>
<td>45</td>
<td>44</td>
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<td>30</td>
<td>99</td>
<td>99</td>
<td>99</td>
<td>100</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Groundnut oil</td>
<td>43</td>
<td>43</td>
<td>47</td>
<td>34</td>
<td>88</td>
<td>87</td>
<td>87</td>
<td>92</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cotton</td>
<td>26</td>
<td>19</td>
<td>29</td>
<td>20</td>
<td>94</td>
<td>93</td>
<td>93</td>
<td>89</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Vanilla</td>
<td>12</td>
<td>9</td>
<td>10</td>
<td>8</td>
<td>25</td>
<td>30</td>
<td>29</td>
<td>22</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rice</td>
<td>5</td>
<td>5</td>
<td>5</td>
<td>6</td>
<td>63</td>
<td>81</td>
<td>75</td>
<td>69</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cloves</td>
<td>3</td>
<td>1</td>
<td>4</td>
<td>2</td>
<td>21</td>
<td>42</td>
<td>17</td>
<td>11</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Palm oil</td>
<td>2</td>
<td>3</td>
<td>3</td>
<td>3</td>
<td>100</td>
<td>97</td>
<td>79</td>
<td>92</td>
<td></td>
<td></td>
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<tr>
<td>Pepper</td>
<td>1</td>
<td>1</td>
<td>2</td>
<td>1</td>
<td>75</td>
<td>79</td>
<td>79</td>
<td>79</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pineapples</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>-d</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td></td>
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</tr>
<tr>
<td><strong>TOTAL, above commodities</strong></td>
<td>474</td>
<td>460</td>
<td>493</td>
<td>365</td>
<td>80</td>
<td>82</td>
<td>79</td>
<td>78</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Note:** Countries and territories selected, with 1961 export value $ million in brackets:

Coffee: Ivory Coast (82), Madagascar (23), Cameroon (21), Togo (5).
Oilseeds: Senegal (47), Dahomey (8), Mali (6), Niger (4), Cameroon, Togo and Polynesia (3 each), Madagascar (2).
Cocoa beans: Ivory Coast (40), Cameroon (29), Togo (5).
Sugar: Reunion (20), Guadeloupe (20), Martinique (10).
Bananas: Guadeloupe, Martinique and Somalia (13 each), Ivory Coast (5), Cameroon (3).
Groundnut oil: Senegal (47).
Cotton: Chad (17), Central African Republic (6), Cameroon (6).
Vanilla: Madagascar (5), Polynesia (2).

**Note:**

- Coffee: Ivory Coast (82), Madagascar (23), Cameroon (21), Togo (5).
- Oilseeds: Senegal (47), Dahomey (8), Mali (6), Niger (4), Cameroon, Togo and Polynesia (3 each), Madagascar (2).
- Cocoa beans: Ivory Coast (40), Cameroon (29), Togo (5).
- Sugar: Reunion (20), Guadeloupe (20), Martinique (10).
- Bananas: Guadeloupe, Martinique and Somalia (13 each), Ivory Coast (5), Cameroon (3).
- Groundnut oil: Senegal (47).
- Cotton: Chad (17), Central African Republic (6), Cameroon (6).
- Vanilla: Madagascar (5), Polynesia (2).

- Rice: Madagascar (5).
- Cloves: Madagascar (4).
- Palm oil: Dahomey (2), Congo (Brazzaville) (1).
- Pepper: Madagascar (2).
- Pineapples: Ivory Coast (0.6), Cameroon (0.2).

- * Excluding exports from Niger and French Polynesia.
- # Excluding exports from Somaliland.
- ** Excluding exports from French Polynesia.
- $ Less than 0.5.
- $ Equivalent to annual figure of $485 million.
TABLE 41

Value of imports of selected agricultural commodities of the EEC: total, and percentages from the associated countries and territories and overseas departments, 1958-62 *

<table>
<thead>
<tr>
<th></th>
<th>1958</th>
<th>1959-60</th>
<th>1961</th>
<th>1962</th>
<th>of which, from associates (Percentage)</th>
</tr>
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<tbody>
<tr>
<td></td>
<td>Net EEC imports US $ million</td>
<td></td>
<td></td>
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<td></td>
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<tr>
<td>Cotton</td>
<td>630</td>
<td>614</td>
<td>672</td>
<td>596</td>
<td>8</td>
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<tr>
<td>Oilseeds</td>
<td>472</td>
<td>525</td>
<td>543</td>
<td>562</td>
<td>30</td>
</tr>
<tr>
<td>Coffee</td>
<td>556</td>
<td>500</td>
<td>498</td>
<td>504</td>
<td>29</td>
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<tr>
<td>Cocoa beans</td>
<td>220</td>
<td>214</td>
<td>187</td>
<td>182</td>
<td>37</td>
</tr>
<tr>
<td>Bananas</td>
<td>162</td>
<td>144</td>
<td>158</td>
<td>163</td>
<td>57</td>
</tr>
<tr>
<td>Sugar</td>
<td>121</td>
<td>127</td>
<td>88</td>
<td>112</td>
<td>46</td>
</tr>
<tr>
<td>Palm oil</td>
<td>57</td>
<td>57</td>
<td>58</td>
<td>48</td>
<td>55</td>
</tr>
<tr>
<td>Groundnut oil</td>
<td>63</td>
<td>56</td>
<td>52</td>
<td>50</td>
<td>72</td>
</tr>
<tr>
<td>Rice</td>
<td>34</td>
<td>38</td>
<td>32</td>
<td>45</td>
<td>13</td>
</tr>
<tr>
<td>Tea</td>
<td>25</td>
<td>26</td>
<td>27</td>
<td>29</td>
<td>1</td>
</tr>
<tr>
<td>Pepper</td>
<td>7</td>
<td>10</td>
<td>14</td>
<td>13</td>
<td>11</td>
</tr>
<tr>
<td>Vanilla</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>(100)</td>
</tr>
<tr>
<td>Cloves</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>(40)</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>2 350</td>
<td>2 314</td>
<td>2 332</td>
<td>2 307</td>
<td>28.6</td>
</tr>
</tbody>
</table>

* Excluding imports from Greece and Turkey.

** Gross imports of each country, less imports from within EEC area.

Exports of 13 principal agricultural commodity groups taken by the EEC countries, and only relatively small changes within the different commodity groups.

197. Table 41 looks at the position from the EEC's side for the same groups of commodities: there was, if anything, some fall-off between 1958 and 1962 in the share of the EEC market for these commodities taken from the associates. This occurred for the three most important commodities dealt with below, oilseeds (30 per cent of the EEC market in 1958 to 19 per cent in 1962), coffee (29 per cent to 24 per cent), and cotton (8 per cent to 6 per cent), for all of which the current values of the imports of the Six from their associates actually fell within this period. In itself, this was obviously, in part, the result of the general decline in prices of these commodities in those years; however, since the associates' relative share in the EEC's total purchases also fell, it cannot only be attributed to this. In summary, while the EEC's net imports of these 13 commodity groups fell by some $43 million (about 2 per cent) between 1958 and 1962, the value of the associates' exports of these commodities to the EEC market declined by $105 (16 per cent), and their share in the total from 28.6 to 24.6 per cent.

198. Taken together, the statistical evidence presented in this Appendix appears to confirm that the actual working of the first Convention of Association from 1958 onward did not tend to give any increased share of the Community's market to the associated countries and territories, nor to give it any greater importance in the exports of the latter. Indeed, in the absence of the Convention and of the transitional measures to maintain existing preferences, the position of the associated countries and territories might well have been far worse.

C. THE COMMUNITY'S RELATIONS WITH OTHER STATES

199. The Community has received a number of requests for membership and associate membership, as well as for the negotiation of trade agreements, and has set up some consultative machinery with certain third countries. A detailed account of all these developments would be outside the scope of this Appendix, which deals only with the association agreements with Greece and Turkey, the open-door policy toward Africa, the suspension of the common external tariff on tea and tropical hardwoods and the trade agreement with Iran.

(i) The association with Greece

200. The agreement of association between Greece and the EEC was signed in Athens in July 1961, and entered into force on 1 November 1962. The agreement provides for a full customs union between Greece and the Community, to be attained by a series of stages, and aided by special measures, including financial aid, to protect and develop the Greek economy.

201. Greek agriculture will be harmonized with that of the Community over a transition period of 22 years. The forms of consultation necessary to take into accounts Greek interests in products such as tobacco are to be fixed.

202. All tariff duties between Greece and the Community are to be gradually abolished over a period of 12 years from the entry into force of the agreement, although:

(1) On the entry into force of the agreement, the Community immediately reduced its tariffs on imports from Greece to the levels already ruling in intra-Community trade for non-agricultural products. For agricultural products a standstill is envisaged until the harmonization of agricultural policies, except for a list of commodities (mainly fruits and vegetables) for which the member states of the EEC apply to Greece, in anticipation of the harmonization, the same customs duties as they apply to each other;

(2) for a series of commodities produced in Greece, representing about one-third of its imports from the...
Community, Greece's tariff reductions may be extended over a period of 22 years; and
(3) in certain circumstances, for the protection of infant industries, new tariffs may be applied by Greece on intra-Community trade during the first 12 years.

203. Toward third countries, Greece will adopt the common external tariff according to the following timetables:

For products with a 12-year transition period:

Phase 1.—Adoption by Greece of the common external tariff where the difference between the present Greek tariff and the c.x.t. is less than 15 per cent. In other cases the difference will be reduced by 30 per cent.
Phase 2.—Further reduction of the difference by 30 per cent.
Phase 3.—Adoption by Greece of the common external tariff.

For products with a 22-year transition period:

Phase 1.—Reduction of the difference between the Greek tariff and the c.x.t. by 20 per cent.
Phase 2.—Further reduction of the difference by 30 per cent or adoption of the c.x.t. by Greece if the difference is not greater than 15 per cent.
Phase 3.—Further reduction of the difference by 30 per cent.
Phase 4.—Adoption by Greece of the common external tariff.

204. In a limited number of cases, Greece may however put into operation certain tariff measures to protect its economy. At the same time for tobacco, raisins, olives and certain other agricultural products, the Community accepts not to modify the common external tariff beyond certain limits during the transition period without the consent of Greece.

205. In intra-Community trade, the EEC countries will be able to apply safeguard clauses on imports of products such as citrus and table grapes whenever imports of these products rise above agreed levels during the transition period. At the same time the Community will lower its tariffs on such agricultural products as meat, dairy products, rice, etc., more rapidly than laid down in the timetables quoted above.

(ii) The association with Turkey

206. In June 1963, the stages by which Turkey would become a full member of the EEC were agreed. The association phase proper, which, as in the case of Greece, is to result in a full customs union between the Six and Turkey, will be preceded by a preparatory period of at least five years, during which Turkey's economy will move toward the stage of development necessary for full membership of the Community. During this period the Six will grant Turkey trade concessions on its principal exports, and financial aid amounting to $175 million, in the form of soft loans. This preparatory period can be prolonged by two years at a time, if periodic examination shows the Turkish economy to be not yet fully prepared.

207. A transition period will then come into operation, during which the customs union between the Six and Turkey will be progressively applied. The duration of this transition period will be fixed at the end of the preparatory period. Finally, as a third stage, will be the full customs union.

(iii) Open-door policy toward Africa

208. During the negotiations between the Six and the United Kingdom for the entry of the latter into the Community, it was agreed that Commonwealth African States should be offered either participation in the Convention of Association or a more limited form of trade agreement, and these two possibilities were provided for in the EEC's Declaration of Intent of April 1963.

209. In addition to the status of possible new associated States provided for in the new Convention of Association, the Declaration of Intent also provides for Commonwealth African countries to seek association with the Community separately from the Convention linking the present associated countries and the Six. This offer appears to be designed to meet the need for some arrangement which would provide for less than the kind of co-operation laid down in the Convention of Association, but more then merely a trade agreement. Hypothetically, it might imply the agreement of trade and customs under provisions between the EEC and third countries in Africa without financial and/or institutional elements being involved. Exploratory talks on commercial relations have already taken place between Nigeria and the EEC Commission and between the three East African countries (Kenya, Tanganyika and Uganda) and the Commission; they are to be continued.

43 On some 5 per cent of its 1958 imports, Greece may for example delay its tariff reductions toward third countries until the end of the 22-year transition period.

44 These are in the form of annual quotas, with reduced tariff, for tobacco (12,500 tons), sultanas (30,000 tons), dried figs (15,000 tons) and hazelnuts (17,000 tons). These commodities represent nearly 40 per cent of Turkey's total exports to the EEC.
TABLE 43
Imports of tea and tropical hardwoods into the EEC and the United Kingdom from preference and other areas, 1960
(In millions of US dollars)

<table>
<thead>
<tr>
<th></th>
<th>Tea</th>
<th>Tropical hardwood logs</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>EEC</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>From associated</td>
<td></td>
<td></td>
<td>94</td>
</tr>
<tr>
<td>Rest of the world</td>
<td>26</td>
<td>67</td>
<td>93</td>
</tr>
<tr>
<td><strong>United Kingdom</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>From Commonwealth</td>
<td>302</td>
<td>19</td>
<td>321</td>
</tr>
<tr>
<td>Rest of the world</td>
<td>26</td>
<td>4</td>
<td>29</td>
</tr>
<tr>
<td><strong>Total, seven countries</strong></td>
<td></td>
<td></td>
<td>113</td>
</tr>
<tr>
<td>From preference areas</td>
<td>302</td>
<td>19</td>
<td>415</td>
</tr>
<tr>
<td>Rest of the world</td>
<td>51</td>
<td>71</td>
<td>122</td>
</tr>
</tbody>
</table>

* Less than 0.5.

(iv) Suspension of the EEC’s common external tariff on tea and tropical hardwoods

210. Following discussions with the United Kingdom, the EEC Council decided in July 1963, to suspend the EEC common external tariffs of 18 per cent on bulk tea and 10 per cent on tropical hardwood logs with effect from 1 January 1964. In turn, the United Kingdom will suspend its 2 pennies per lb. most-favoured-nation rate on tea from non-Commonwealth sources, and its 8 per cent tariff on tropical hardwoods. Nil tariffs had been agreed on for these items in the course of the suspended EEC-United Kingdom negotiations. The new agreement, which is renewable, is for a period of two years. As will be seen from Table 43, the suspension affects imports into the seven countries from non-preference areas to a value of $122 million or some 23 per cent of their total imports of these two commodity groups in 1960.

(v) Trade agreement with Iran

211. The first trade agreement between the EEC and a third country was drawn up in May, 1963. Under its terms, the EEC’s common external tariff on raisins was to be reduced from 8 per cent to 7.2 per cent (ad valorem), and a further quantity, to be agreed later, to be allowed into the Community each year duty free. The common external tariff of 32 per cent on carpets will remain, but a flat rate with an estimated incidence of about 20 per cent ad valorem for medium-quality Persian weaves, and less for top-qualities, was agreed on as an alternative. The common external tariff on dried apricot halves is to be reduced from 8 to 7 per cent, and that on caviar from 30 to 24 per cent.

46 The duty for tea in packages of 3 kg or less is reduced from 23 to 5 per cent.
IMPLICATIONS OF REGIONAL ECONOMIC GROUPINGS

THE APPLICATION OF THE TREATY OF ROME*

I. THE TREATY OF ROME ESTABLISHING THE EUROPEAN ECONOMIC COMMUNITY

The first achievement in the economic integration process of the States members of the European Economic Community goes back almost thirteen years. The Treaty establishing the European Coal and Steel Community (ECSC) was signed by Belgium, the Federal Republic of Germany, France, Italy, Luxembourg and the Netherlands on 18 April 1951. That initial experiment was limited to a relatively restricted economic sector. Subsequently, it has been extended to other sectors of the economy by the signing of the Treaties establishing the European Economic Community (EEC) and the European Atomic Energy Community (EAEC) at Rome on 25 March 1957.

The essential characteristic of the EEC is the progressive establishment of a new economic entity based on the free movement of goods, persons, services and capital, and provided with its own institutions.

The Treaty of Rome which set up the EEC provides for the following within fixed time limits:

(a) the establishment of a customs union;
(b) the application of a common policy in foreign trade, agriculture and transport;
(c) the bringing into line of the economic and social policies of the States Members, requiring the application of common rules.

The main purposes of the European Economic Community as defined by articles, 2, 18 and 110 of the Treaty of Rome reflect on the part of member States:

(a) their aim to promote throughout the Community a harmonious development of economic activities, a continuous and balanced expansion, an increased stability, an accelerated raising of the standard of living and closer relations between them, and
(b) their intention to contribute in conformity with the common interest, to the harmonious development of world trade, the progressive abolition of restrictions on international exchanges and the lowering of customs barriers.

The close relationship thus set up between the regular development of the economic activities of EEC member States and a harmonious expansion of world trade illustrates the Community’s open and liberal character, which is also reflected by the provisions of the Treaty concerning the membership and association of other countries. At present, Greece and Turkey are associated with the Community in order to achieve progressively a complete customs union with it.

Further, the association with the African States and Madagascar has been renewed by joint agreement for a further period of five years on very liberal terms.

Lastly, in a joint declaration by the Governments of the member States at the time when the Treaty of Rome was signed, they recognized that the establishment of a customs union between themselves should contribute not only to their own prosperity but also to that of other countries; consequently, they expressed their aim to associate such countries in the prospects for expansion offered by the customs union, and declared their willingness henceforth to conclude with other countries agreements permitting the achievement of these objectives of common interest and ensuring the harmonious development of international exchanges in general.

II. THE PROGRESSIVE ESTABLISHMENT OF THE COMMON MARKET

A. The customs union

The Treaty of Rome provides for the elimination of customs duties between member States and the adoption of a common customs tariff towards third countries.

At present, as far as intra-community trade is concerned, the customs duties which still exist in the case of industrial products are reduced by 60 per cent compared with the basic rates for 1957. The reductions amount to 45 per cent for practically all agricultural products.

As for the common customs tariff, the duties have been fixed generally on the basis of the arithmetical average of the domestic duties in force on 1 January 1957 for each tariff-heading in the four customs zones. On the other hand, the arithmetical average was not taken into account for some products, e.g., those on list G. In the case of the latter, the common tariff rates were fixed at a level below the arithmetical average. Consequently, the incidence of common tariff rates before the reductions of the GATT tariff conference in 1960-1961 has been estimated at 7.6 per cent, whereas the average incidence of EEC member States in 1957 was 8.1 per cent. Furthermore, it should be noted that the actual incidence of duties under those two provisions of the common tariff is still further reduced by the operation of tariff quotas.

* The attached memorandum has been submitted by the Commission of the European Economic Community for circulation to the Conference.

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1 The application of a weighted average would have resulted in generally higher rates. Belgium, the Netherlands and Luxembourg already constituted a customs union.

2 A list of products for which the Treaty of Rome provides that the duties under the common external tariff shall be negotiated between member States.
and duty suspensions affecting a number of products. In this connexion, it may be noted that the tariff protection of the Community is one of the lowest at present existing among industrialized countries.

The establishment of the common customs tariff, i.e., the progressive alignment of domestic tariffs on the common tariff, is being carried out in EEC Member States in conjunction with the gradual elimination of intra-community duties. So far, domestic tariffs have been brought into line with the common tariff twice in the case of industrial products (once only in the case of agricultural products). These rapprochements have had the effect of reducing by at least 60 per cent the difference between domestic duties and the duties under the common tariff, reduced by 20 per cent, which provided the basis for calculation except in two cases. Initially in the case of some products on list G, the alignment was made on listed non-reduced rates. Subsequently, in the case of products where the rates were reduced by more than 20 per cent in the GATT negotiations, the latter rates were used in calculating the reduction.

As for the lifting of quotas on intra-community trade, quantitative restrictions on all industrial products were abolished as from 1 January 1962. They are still retained for a limited number of agricultural products.

Very substantial progress has been made in eliminating quantitative restrictions applicable to third countries, e.g., dollar-area countries and countries whose system of foreign trade control is based on the principles of GATT.

B. The application of a common agricultural policy

Within the general scheme of community integration the need for a joint agricultural policy was felt in a sector where domestic regulations are very far reaching and frequently divergent, and where competitive conditions on world markets are to a large extent distorted. The EEC is therefore substituting common rules for the domestic systems, and after the transition period these should ultimately lead to a single market involving the establishment of uniform measures at the frontier under which the agricultural production of the community will not be exposed to competition from the world market without safeguards, although the need for these varies for different products.

In carrying out the new rules of this common policy the EEC has endeavoured to reconcile the needs of integration with the need to guarantee its workers in the agricultural sector an income compatible with that of other sectors of the economy, and also with the interests of third countries which traditionally export agricultural foodstuffs.

In the case of the main agricultural products a system of levies has been introduced to take the place of the system of restrictive measures which existed before; by its very nature it automatically adapts itself to fluctuations in world markets. The instrument of agricultural policy thus created puts the EEC in a better position to participate in international efforts to increase trade and organize agricultural markets.

The regulations in force or which have been worked out to date cover grains, pork, eggs, slaughtered poultry, fruit and vegetables, rice, beef and dairy produce.

The levy system is applied to the exclusion of all other tariff measures previously in force in the case of grains, pork, eggs, slaughtered poultry, rice and dairy produce, whereas customs duties only are levied on fruit and vegetables. A mixed system including customs duties is applicable to beef, but a levy is imposed only when import prices fall below a given price.

Now that the regulations have been in force for a year it can be said that trade with third countries has not suffered on the whole any unfavourable effects as a result of their application.

III. ASSOCIATION OF AFRICAN AND MALAGASY STATES WITH THE EEC

The new Convention of association between the Community and eighteen African and Malagasy States was signed at Yaoundé on 20 July 1963. It will enter into force for a period of five years, one month after the deposit of the instruments of ratification by the six European parliaments and the European Economic Community.

Whereas the first Convention of association included the member States of the EEC and countries that were not yet autonomous, that is no longer the case in regard to the second Convention which unites the Community and independent States. The new association has been freely negotiated. As complete and coherent a development policy as possible has thus been defined and provided with parititary institutions and the necessary means for its implementation.

Apart from the provisions of article 238 of the Treaty of Rome, which provides for the conclusion of agreements of association with third States, the Yaoundé Declaration, published on the occasion of the signing of the Convention with the African and Malagasy States on 20 July 1963, announces that association is open to all third countries whose economic structure and production are comparable with those of the associated States and which apply for it. This Declaration thus illustrates the spirit of solidarity and the sense of responsibility with which the Convention was conceived, drafted and concluded.

Further, the Declaration is clear evidence that association will not be in any way contrary to the process of African unification. In any case, the Convention of association clearly stipulates that the maintenance or establishment of customs unions or free trade areas among one or more Associated States and one or more third countries shall not be precluded in so far as they are not or do not prove to be incompatible with the Convention.

The help given to the associated States by the European Economic Community in the form of financial and technical aid is characterized by its size and the range of methods of application. The global amount of aid given by the Community for the five-year period covered by the Convention was $800 million.
Under the new Convention, the associated States have free access to the EEC market, and their products likewise benefit from the elimination of duties and quantitative restrictions among the Six. On the other hand, although they open their markets to the EEC, they can take protective measures as required by their development and industrialization needs or for the purpose of raising revenue.

IV. EECtrade policy toward third countries

In applying measures required to achieve its economic integration and enable the common commercial policy to be put into effect after the expiry of the transitional period, the EEC has constantly taken into consideration the legitimate commercial interests of third countries. In an open type of economic grouping such as the Community—and this is sufficiently emphasized in the Treaty of Rome—there necessarily exists a close relation between internal economic expansion and the development of trade with the rest of the world. Therefore, the decisions taken by the EEC authorities are drawn from a constant endeavour to strike a balance between the Community's consolidation requirements and its desire to promote the expansion of world trade.

That effort is to be found in the preparation and progressive application of the Common Customs Tariff as well as in the flexible measures of a common agricultural policy and the lowering of trade preferences granted to the associated States of Africa and Madagascar within the scope of the second Convention; it has also taken positive form in the Community's growing share of international trade. From 1958 to 1963, EEC imports from the rest of the world rose by 50 per cent and its exports by 34 per cent. In 1963, the Community's global balance of trade deficit amounted to $3,100 million (see Annex 1). In the same year the deficit in favour of developing countries and territories alone amounted to $2,500 million (see Annex 2).

Nevertheless, it must be noted that this marked growth in EEC imports was rather more from the industrialized than from developing countries.

V. EEC trade policy toward developing countries

Changes in the pattern of EEC imports to some extent favourable to the developed countries reveal the problems posed by trade between the developing countries and the industrialized areas. These problems are all the more acute because international trade has direct implications for the actual development of the not-so-advanced economies.

The European Economic Community for its part has adopted regional solutions, taking into account the previously existing links between certain overseas countries and territories and some of its member States. Nevertheless, it would be idle to pretend that association could resolve all the problems of the associated States since not being outside the present world trading system it necessarily shares the latter's risks and drawbacks. Moreover, several developing countries might think that the association formula is not quite applicable to them. Hence the EEC has insisted on several occasions that trade policy for development purposes must be reviewed on a world scale and has consequently submitted proposals which, in its opinion, would make it possible to arrive at solutions really favouring the economic expansion of the developing countries.

Moreover, the Community's concern has found expression in a number of unilateral measures. Thus, within the scope of the new association with the countries of Africa and with Madagascar, common customs tariff duties have been substantially lowered (from 15 to 40 per cent) on a series of tropical products of major interest to developing countries. Further, common customs tariff duties have also been suspended on a certain number of other traditional export products of developing countries. Again, in agreement with the United Kingdom, the Community has suspended its duties on tea and tropical timber. At the same time, concessions in the form of tariff quotas open to all third countries and suspension of the common customs tariff have been granted within the range of the recent agreement between the Community and Iran.

The Community remains the first customer of the underdeveloped countries even if the rate of growth of its imports from developing areas remains below that of its total imports from all third countries. Industrial raw materials represent about 20 per cent of EEC imports from the developing countries; tropical agricultural products 65 per cent. Semi-manufactures and manufactures showed a general value of $725 million in 1962 as against $476 million in 1958. The EEC thus confirms its leading position as an importer of semi-manufactures and manufactures from the developing countries.

This development of EEC trade with the developing countries has taken place smoothly, and it is to be noted that association with the countries of Africa and Madagascar has not so far provoked any upset in traditional trade patterns to the detriment of third countries. Indeed, it has been found that for the period 1957 to 1963 the growth of EEC imports from developing countries as a whole was about 25 per cent, whereas it was only 12 per cent from the associated States of Africa and Madagascar.

VI. Financial and technical co-operation

The EEC remains convinced that commercial co-operation with the developing countries has its natural complement in close financial and technical co-operation. Hence the member States of the Community have been contributing quite substantially to the efforts of the developed countries in this second form of international solidarity (see Annex 3).

This financial and technical co-operation may be examined very concretely in a framework of EEC association with the associated States of Africa and Madagascar. The total amount of EEC aid for five

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3 CST sections 6 + 7 + 8.
years rose to $800 million: $730 million to the Associated states of Africa and Madagascar and $70 million to associated overseas countries and territories.

Whereas hitherto the Community could only grant non-repayable aid, it now has at its disposal a spread of widely differentiated financial techniques.

The originality of the new Convention of association is apparent particularly in regard to diversification of the policy of aid to development.

The Community today is, as regards methods, probably the only international body in a position to offer both gifts and special loans, interest rebates and advances to help mitigate the effects of temporary fluctuations in world prices. As for the intervention sectors, it is also probably the only international body in a position to finance capital investments as well as commercial aids to production, structural aids to diversification and the entire range of technical assistance operations.

Annex 1

Trends in EEC trade with third countries

<table>
<thead>
<tr>
<th>Years</th>
<th>EEC imports</th>
<th>EEC exports</th>
<th>EEC trade balance</th>
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<td>1963</td>
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<td>21 620</td>
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Source: Statistics Office of the European Communities.

Annex 2

Trends in EEC trade with developing countries and territories as a whole

<table>
<thead>
<tr>
<th>Years</th>
<th>EEC imports</th>
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<th>EEC trade balance</th>
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Source: Statistics Office of the European Communities.

Annex 3

Long-term financial resources placed by the EEC at the disposal of developing countries and multilateral bodies in 1960-1961 and 1962 (Payments)

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<tr>
<td>EEC</td>
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<td>907.8</td>
<td>2 299.5</td>
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</table>

Source: OECD.

Annex 4

1960

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Source: OECD.

1961

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1962

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Source: OECD.
THE EUROPEAN FREE TRADE ASSOCIATION*

THE EFTA CONVENTION

1. In 1959, seven European States—Austria, Denmark, Norway, Portugal, Sweden, Switzerland and the United Kingdom—formed the European Free Trade Association (EFTA); and in 1961, Finland became an Associate Member of EFTA.

2. The Association's formal objectives cover both:
   (i) Member States' intention to promote economic expansion within the area itself through the technique of free trade; and
   (ii) their intention to contribute to the harmonious development and expansion of world trade and to the progressive removal of barriers to it.

3. It is fundamental to the Stockholm Convention that in pursuing the objective of free trade among themselves, member States are still able to pursue their role as active members of the world trading community. The provisions of the Convention itself necessarily concentrate primarily on the implementation of the free trade area techniques designed to fulfill the first of these objectives. As a free trade area, EFTA is similar to a customs union, in that all duties and other restrictive regulations of commerce have to be eliminated, but differs from a customs union in that the constitutional territories of a free trade area maintain their own individual tariffs towards third countries and their complete freedom in external trade policy.

4. In addition to tariff measures, the free trade area provisions include parallel relaxation of quantitative import restrictions, elimination of export restrictions and export duties, rules of fair competition (subsidies, trading practices of public undertakings, restrictive business practices, etc.); special provisions apply to agricultural and fishery products with a view to facilitating an expansion of trade in these products.

THE ELIMINATION OF INTRA-EFTA TARIFFS AND THIRD COUNTRIES

5. Progress towards free trade among the EFTA member States has been pursued by successive tariff reductions which reached the 50 per cent level on 31 October 1962. As from 31 December 1966 goods manufactured within the EFTA area will be traded between the member States as if no frontiers existed. Finland will eliminate her tariffs on EFTA goods one year later. The individual tariffs of member States towards the rest of the world remain unchanged under

6. World trade is of paramount importance to EFTA countries. Four-fifths of member States' import trade and more than three-quarters of their export trade takes place with non-EFTA countries. Although the main aim of EFTA is to contribute to intra-European economic integration, the Convention was drawn in terms which would not disrupt the important and long-established trade relations with third countries. Moreover, it is important to appreciate that the tariff provisions of the Convention are carefully drafted so that member State ultimately to eliminate industrial tariffs vis-à-vis the other members. The provisions are not written with the intention to create EFTA preferences: each EFTA State is free to reduce its own m.f.n. duties without at the same time being obliged to make corresponding reductions on their EFTA rates. In fact a wide range of tariff concessions was negotiated by individual member States with third countries at the time of the last GATT Tariff Negotiating Conference (1960-1961).

7. The free trade arrangements obviously apply only to goods produced in EFTA countries; it is therefore necessary to have origin rules to define goods which can be regarded as having been produced in EFTA countries and which are not re-exports of third country goods. These rules are described in more detail in the Annex hereto. The most important characteristic for third countries is that their general effect is that member States do not have to change their existing sources of supply of raw materials.

THE CONTRIBUTION OF EFTA STATES TO WORLD TRADE

8. In consequence of their basic outward looking trade policy, EFTA countries attach the greatest importance to the forthcoming GATT negotiations of a linear tariff cut of 50 per cent with the minimum of exceptions. They are also participating actively in the work already under way in the GATT to assist the trade of developing countries. In the same spirit, they intend to pursue the further opportunity which the United Nations Conference on Trade and Development offers for the European nations and other industrialized countries to work together with the developing countries in efforts to expand and develop their economies.

Annex

THE EFTA ORIGIN SYSTEM

1. The basic EFTA rule is the 50 per cent rule. Under this, goods are regarded as of EFTA origin if the c.i.f. import value of any materials imported from outside the area together with the earliest ascertainable

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*This memorandum was submitted by the secretariat of the European Free Trade Association. It is being circulated in connexion with the sub-item on "Implications for trade and development of developing countries of economic groupings of developed countries and/or preferential trading arrangements" (item V.1 of the list of main topics). See Interim Report of the Preparatory Committee (first session), in Vol. VIII of this series.
value of any materials of unknown origin is less than 50 per cent of the f.o.b. export price of the goods. Thus the value of EFTA materials incorporated in the goods, duty on imported materials, increases in value due to sale or resale of imported materials or materials of unknown origin, labour and other production costs of the goods and profit on the sale of the goods, all contribute to the EFTA content of the goods. A series of alternative rules, known as the process rules, short cut the 50 per cent calculation by virtually assuming that a number of specified manufacturing processes constitute a practical equivalent to the 50 per cent rule. For most goods there is a choice between the 50 per cent rule and the process rule, but in the case of most textiles the process rules are obligatory.

2. The 50 per cent rule is clearly a liberal one. It is much more generous, however, if account is taken of the basic materials list. This list covers almost all basic raw materials. Even if they are imported from outside the area they are regarded as EFTA materials and need not be taken into account in calculating the value of the product in determining whether the 50 per cent rule has been fulfilled. It is clear that this basic materials list is of particular significance for third countries as its general effect is that EFTA countries do not need to change existing sources of supply of the raw materials concerned.

3. This origin system has now been in operation for over three years. Both customs administrators and traders consider that it is working satisfactorily.
EFTA TRADE WITH DEVELOPING COUNTRIES*

1. The EFTA countries play an important role in the foreign trade of the developing countries in Africa, Asia and Latin America, absorbing in 1962 about one-sixth of their total exports. Put differently (see attached that the increase was mainly due to a contraction of imports from EFTA countries rather than to an expansion of exports to them.

2. Progress in the development of trade in recent years between the EFTA countries and the developing

<table>
<thead>
<tr>
<th>Reporting Area</th>
<th>Commodity pattern of trade, 1962</th>
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<tr>
<td>SITC</td>
<td>Commodity imported from and EFTA</td>
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<tr>
<td>0-9 Total imports</td>
<td>100</td>
</tr>
<tr>
<td>0-4 Food, fuels and raw materials</td>
<td>83.1</td>
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<tr>
<td>3 of which: Fuels</td>
<td>29.2</td>
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<td>5-8 Industrial goods</td>
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<td>0-9 Total exports</td>
<td>100</td>
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<tr>
<td>0-4 Food, fuels and raw materials</td>
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<tr>
<td>5-8 Industrial goods</td>
<td>88.8</td>
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<tr>
<td>7 of which: Machinery and transport equipment</td>
<td>37.9</td>
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1 Throughout this paper, the developing countries are taken to be all the countries of Latin America, Africa and Asia, with the exception of South Africa and Japan. The term EFTA refers to the Seven and does not include Finland.

Table I, the trade of the Members of the Association with the developing countries is larger than the intra-area trade of EFTA countries mainly due to the United Kingdom position. In particular EFTA countries buy more from developing countries than they do from each other. The developing countries exported more to EFTA countries than they imported from them. This resulted, in 1962, in an import surplus for EFTA countries of more than $800 million as compared with $560 million in 1959. It must, however, be mentioned...
countries has been somewhat limited. Imports from developing countries increased between 1959 and 1962 by a little more than 5 per cent and exports from EFTA to developing countries remained unchanged.

**COMMODITY PATTERN OF TRADE**

3. As regards commodities there are three distinguishing characteristics in imports from developing countries:

(i) the very high proportion of food, fuels and raw materials in this trade;

(ii) EFTA’s imports of semi-manufactured and manufactured goods from this area during recent years increased considerably more than the average imports from developing countries;

(iii) thirdly, the substantial expansion of African deliveries of petroleum to member countries of the Association. These were in 1962 ten times as large as in 1959.

4. More specifically the main commodities in the import trade with developing countries were—besides petroleum, which was bought from all three continents under review—tea, crude rubber and clothing from Asia; oil seeds, tobacco, cocoa and copper from Africa; and meat, coffee, copper and chemicals from Latin America.
I. THE INFLUENCE OF INTERNATIONAL TRADE ON LABOUR PROBLEMS

One of the fundamental obligations of the International Labour Organisation, as solemnly proclaimed in the Declaration of Philadelphia,¹ is to secure that “all national and international policies and measures, in particular those of an economic and financial character, should be judged” in the light of the extent to which they “may be held to promote and not to hinder” the attainment of conditions such that “all human beings, irrespective of race, creed or sex, have the right to pursue both their material well-being and their spiritual development in conditions of freedom and dignity, of economic security and equal opportunity.”² It is this which should “constitute the central aim of national and international policy.”³ “Confident that the fuller and broader utilisation of the world’s productive resources [is] necessary for the achievement of the objectives [of the ILO and] can be secured by effective international and national action, including measures to extend production and consumption, to avoid severe economic fluctuations, to promote the economic and social advancement of the less developed regions of the world, to assure greater stability in world prices of primary products and to promote a high and steady volume of international trade,” the International Labour Conference pledged “the full co-operation of the International Labour Organisation with such international bodies as may be entrusted with a share of the responsibility for this great task.”⁴

It follows that the International Labour Organisation has always realised that the structure, volume and shifting patterns of international trade have a vital bearing on the welfare of the workers. This is so because from the long-term point of view expansion of international trade and a better international division of labour—with the heightened productivity which this implies—can and must promote the development of participating economies, a rise in the living standards of communities (and hence of the workers), and at the same time an increase in job opportunities, owing to the greater number of trade possibilities. More immediately, the state of international trade relations directly affects the level of employment in individual countries and the incomes of millions of wage earners and their families.

This explains why the International Labour Conference has always focused particular attention on matters relating to international trade. Back in 1944, at its 26th session, it adopted a resolution concerning economic policies for the attainment of social objectives,⁵ a large part of which dealt with trade and international movements of capital; it returned to these issues on several occasions in the years that followed, especially in 1945 and in 1950 in two resolutions relating to full employment and to unemployment.⁶ This interest of the ILO in the social repercussions of international trade has grown rather than slackened in the last ten years. In 1958, for instance, the 42nd session of the International Labour Conference voiced its preoccupation with the subject and expressed the belief

“that an expansion of international trade, by promoting higher productivity and a fuller and more efficient utilisation of manpower and material resources, would make for higher standards of living and improved labour conditions and would thus help in achieving the objectives of the International Labour Organisation.”⁷ and urged...

“the governments of member States to continue their efforts to reduce existing barriers to international trade in a mutually satisfactory manner, taking all feasible measures to avoid the unemployment which could result therefrom in certain cases; these efforts should pay due attention to the development needs of under-developed countries.”⁸

A little later on, at its 45th Session (1961), the Conference reverted to this question when examining the subject of employment policy and appealed to governments to co-ordinate other measures of economic and social policy with employment policy measures and, in particular, to take “appropriate measures to promote freer movement of goods, capital and labour between countries, having the regard to the need of sustaining healthy economies in all countries.”⁹

² 1945 resolution concerning the maintenance of full employment during the period of industrial rehabilitation and reconversion, idem, p. 50, and 1950 resolution concerning action against unemployment, idem, p. 56.
³ Resolution concerning the expansion of international trade, adopted by 124 votes to 34, with 48 abstentions.
⁴ This paper was prepared by the Secretariat of the International Labour Organisation (ILO) in connexion with item 10 of the provisional agenda on the subject “Expansion of international trade and its significance for economic development” (item I of the list of main topics). See Interim Report of the Preparatory Committee (first session), in Vol. VIII of this series.
⁵ Declaration of Philadelphia, Part II.
⁶ Idem.
⁷ Declaration of Philadelphia, Part IV.
⁸ Idem.
⁹ Resolution concerning employment policy, adopted by 231 votes without opposition or abstentions.
In fact, the importance of the repercussions of international trade on employment and the living conditions of the workers is such that there is room for a full-scale "international employment policy." This was forcefully stated by the recent Preparatory Technical Conference on Employment Policy which was held in Geneva in September-October 1963. This Conference devoted a considerable part of its time to the international aspects of employment problems and adopted conclusions concerning the steps which ought to be taken at the international level to promote the achievement of the aims of employment policy. In these conclusions, which it asked should be transmitted to the United Nations Conference on Trade and Development, the Conference states, inter alia, that "all member States should co-operate, together with inter-governmental and other international organizations, in the development of an international employment policy. In particular, member States should contribute to all efforts to expand international trade and to diminish the repercussions of the level of employment of unfavourable fluctuations in the international terms of trade, and of balance-of-payments and liquidity problems. The industrialized countries, in their economic policies, including policies for economic aid and for expanding demand, should take into account the need for increased employment in other countries, in particular in the developing countries."

Certain questions have an obvious relevance to the ILO—for instance, the repercussions of trade fluctuations not only on employment but also on wages and prices, the necessity of expanding the exports of the developing countries to embrace not only raw materials but also manufactured and semi-manufactured products, the fundamental role of vocational training and management development in enabling developing countries to take advantage of the possibilities offered by foreign trade to diversify and increase their production, the importance of good labour management relations in increasing productivity, and the need for international labour standards to protect the workers so that expansion is not all at their expense, are some of the current ILO problems which have a direct bearing on international trade.

Furthermore, as was stated by the United Nations Under-Secretary for Economic and Social Affairs, the structural adjustments entailed by a new international division of labour resulting from the more active part taken by the developing countries in international trade could not be achieved without the adhesion and support of labour, and the ILO happened to be the international organization best qualified to maintain contact with trade union circles with a view to obtaining their support for such adjustments.

It is not surprising, therefore, that the various ILO organs should have expressed such interest when it was announced that the United Nations Conference on Trade and Development would be convened shortly. Just as it had in 1955 expressed a keen desire that the ILO should be associated with the establishment of an organization for trade co-operation which was then under consideration, the Conference has taken a close interest in the preparations for the United Nations Conference on Trade and Development, the Worker members, in particular, having drawn attention to the tremendous impact of trade policies of workers' living standards, and to the need to ensure that their interests are duly safeguarded. The Governing Body has, on several occasions, requested the Director-General of the ILO to report to it on ways in which the ILO might co-operate in the preparatory work for the Conference and participate in the deliberations of the Conference itself.

II. COMMODITY TRADE AND THE ILO

In the existing pattern of international trade structures, the problem of markets for basic commodities has claimed the attention of several ILO bodies. It is common knowledge that instability in the markets for primary commodities, coupled with the much deplored trend towards a long-term worsening in the terms of trade relating to them, bids fair to jeopardize the chances of economic development and hence of social progress of many developing countries, and at the same time adversely affect the level of employment and the working conditions of their peoples. Various ILO organs have on several occasions drawn the attention of Governments and the competent international organizations to these phenomena. In 1853 the International Labour Conference adopted a resolution in which, after having recognized that: "... the economies of many industrially undeveloped countries are closely affected by the prices which their primary products secure in overseas markets ..." and noting that: "... these countries are essentially vulnerable to any deterioration in their terms of trade and in particular to wide short-term fluctuation in the prices of primary commodities ...", requested the Director-General to convey to the Secretary-General of the United Nations its view that the solution of these problems was essential to the full and expeditious achievement of the aims and objectives set out in the Constitution of the International Labour Organisation and its hope that the

11 In a resolution adopted by 116 votes to 0, with 2 abstentions, the Governing Body decided to give effect to this resolution. The conclusions in question are appended to this document.
12 As was emphasised quite recently by the Governing Body of the ILO at its 157th session (November 1963). See document G.B.157/15/32.
13 In the Second Committee of the United Nations General Assembly, at its eighteenth session (opening address by Mr. de Seynes).
14 At its 129th session (May 1955). See Minutes of the 120th session of the Governing Body, Appendix XIII, paras. 16-17.
15 See Minutes of the 153rd session of the Governing Body, Appendix XVII, para. 12.
17 Resolution concerning the economies of under-developed countries, adopted by the Conference at its 36th session by 171 votes to 0, with 9 abstentions.
appropriate organs of the United Nations would actively pursue their efforts to promote a solution of these problems.

In 1961 the Conference turned to Governments themselves and called upon them, within the framework of their economic policies, to make efforts:

"... to avoid undue fluctuations in the prices of primary commodities"

with a view to:

"mitigating the impact on levels of employment of adverse movements in the terms of trade or the balance of payments,"\(^{18}\) and once again stressed:

"the need for adopting effective measures to promote fair and stable prices of raw materials produced by countries in process of development, and for facilitating the access of those raw materials to world markets...".\(^{19}\)

Similar appeals to Governments, to the United Nations and to other competent specialized agencies will also be found in the conclusions adopted by several other ILO organs. The Preparatory Technical Conference on Employment Policy, in particular, stated that:

"vigorous and determined efforts should be made to conclude agreements [...] ensuring greater stability at fair and reasonable prices in the markets for primary commodities with a view to avoiding disruption of the development plans and employment policies of the developing countries".\(^{20}\)

In addition, the regional conferences have echoed the grave concern caused by the instability and general evolution of the markets for primary commodities. Thus in 1960 the African Regional Conference\(^{21}\) unanimously adopted a resolution concerning the stability of world commodity markets and their influence on levels of living and employment. The Declaration of Buenos Aires, adopted by the Conference of American States Members of the ILO in 1961,\(^{22}\) also unanimously emphasized the urgent need "for governments to develop basic programmes for stabilization of commodity markets at fair prices". Yet more recently, in 1962, the Asian Regional Conference, in a resolution concerning measures to promote stable prices of basic commodities in world markets and other measures for the effective utilization of resources and the improvement of living standards,\(^{23}\) stressed "the vital importance of price stability on the economic and social development of countries presently suffering from commodity price fluctuations."

Meetings of more specialized bodies, such as those of the Committee on Work on Plantations or of the Iron and Steel Committee, have also concerned themselves with the problems of production and trade in primary commodities.\(^{24}\) At its seventh session (August-September 1963), the Iron and Steel Committee adopted a resolution\(^{25}\) concerning metalliferous ores and manufactured steel products, in which it was concerned about "the consequences which the price fluctuations of metalliferous ores, in general, and of iron ore in particular, on the one hand, and of manufactured and capital goods on the other, may have on the social conditions and on the evolution of the iron and steel industry in developing countries. For its part, the Committee on Work on Plantations adopted in 1953 a resolution concerning the need for international action in the field of commodity regulation, and emphasized the urgency of this question,\(^{26}\) in 1955 it again returned to the problem of primary commodities in the resolution concerning possible measures within the countries and industries concerned for stabilizing employment and earnings of plantation workers\(^{27}\); in 1961, after having noted once again that:

"the situation of workers in developing countries is seriously affected by price fluctuations of the products on which the economy of their respective countries is based and that the workers thus find themselves and their families in living conditions leading to social injustice, misery and privations" and after recalling its earlier resolutions, the Committee on Work on Plantations invited the Governing Body, among other things, to instruct the Office to intensify its studies on the effects of price fluctuations of plantation products and to co-operate with the United Nations and other interested organizations in this field.\(^{28}\)

The fact is that the ILO's activity in this field is not confined to the adoption of sundry resolutions or conclusions of no immediate or practical consequences for the Organisation's activities. At the instigation of the Governing Body,\(^{29}\) in which it has been pointed out that failure to stabilize commodity

\(^{18}\) Resolution concerning employment policy (45th session), adopted by 231 votes to 0, with no abstentions.

\(^{19}\) Resolution on economic and technical assistance for the promotion of economic expansion and social progress in developing countries, adopted unanimously at the 45th session (1961) of the International Labour Conference.

\(^{20}\) Conclusions on action in the international field to promote employment objectives, loc. cit.


\(^{22}\) Seventh Conference of American States Members of the ILO, Buenos Aires, April 1961.

\(^{23}\) Fifth Asian Regional Conference, Melbourne, November-December 1962.

\(^{24}\) The problem of basic commodities is liable to be brought up at all kinds of meetings. Thus, the Tripartite Technical Meeting for the Food Products and Drink Industries (Geneva 1963) adopted unanimously a resolution on world food problems and technical assistance to developing countries in the food and drink industries in which it suggests that the "ILO should continue to give the fullest possible support to the efforts of the United Nations and other organizations concerned to protect the balance of payments of the developing countries by means which may include a regularization of prices of raw materials on which the food processing industries depend, mainly by means of international commodity agreements, and to encourage consideration of the social consequences of international commodity agreements when they are drawn up."

\(^{25}\) On a record vote by 79 votes to 15, with 15 abstentions.

\(^{26}\) Second session, Havana, March 1953. Resolution adopted by 52 votes to 0, with 1 abstention.

\(^{27}\) Third session, Geneva, October 1955. Resolution adopted by 76 votes to 0, with 6 abstentions.


\(^{29}\) Which has discussed the question of the effects of commodity price fluctuations at its 143rd, 144th, 147th, 148th and 149th sessions (November 1959, March 1960, November 1960, March 1961 and June 1961). See Minutes of the 143rd session of the Governing Body, Appendix XVI, idem, 144th session, Appendix XIII, idem, 147th session, Appendix XVI, idem, 148th session, Appendix XV, and idem, 149th session, Appendix XII.
prices could undo the effects of international action in other fields, such as the provision of technical assistance, positive action has been undertaken to give effect to the requests often formulated in these texts. This action has consisted, firstly in theoretical and analytical research within the ILO, on which papers have been published from time to time. Secondly, while it is not for the ILO to take direct action on its own account to establish machinery or procedures to solve specific commodity problems, it is its duty to see to it that those solutions which are put forward do not overlook the social aspects of the question. To this extent the ILO has noted with satisfaction that a special clause on the equitable treatment of workers has been inserted in a number of international agreements for the stabilization of prices of specific commodities. Again in the light of these same responsibilities, the International Labour Organisation continues to keep the situation under careful review and to co-ordinate its activities, whenever necessary, with those of the other international organizations by means of direct contacts as well as through its membership of the Administrative Committee on Co-ordination and (ACC), the ACC sub-committee specializing in commodity trade, on which it is regularly represented.

However, while adjustments in basic commodity markets constitute a major aspect of the organization of international trade, it is widely felt that a long-term solution of the problem posed by trade between countries at differing stages of development will depend primarily on structural changes in trade patterns, and hence in the production apparatus of the country concerned. The only conceivable way for developing countries to catch up with the advanced countries is to diversify their production and their contribution to international trade, which at present is usually limited to supplying a small number of basic commodities in exchange for manufactured goods.

III. DIVERSIFICATION OF PRODUCTION- INCREASES IN TRADE AND ECONOMIC AND SOCIAL DEVELOPMENT

Diversification of production is a way of enabling the developing countries to escape from a dangerous state of dependence on a single market, and sometimes a single outlet, and at the same time a way of increasing the amounts of foreign currency available for developing the economy. At the same time, it may be the key to fuller utilization of the resources available in those countries and hence accelerated development. As the International Labour Conference stated in 1962:

"the attainment of rapid economic and social development requires the full and complete use of the resources of each country and the extension of international trade on the basis of stable and profitable prices for the developing countries so as to facilitate the financing of their national programmes of economic and social development."

Such full and complete use of national resources and such diversification of production generally imply a greater degree of industrialization, which in turn is an important factor in strengthening the economic and social development of the countries concerned and in maintaining their independence. In any event, it is usually contingent on three things:

(i) that the economies are supplied with capital to enable them to make the necessary investments;
(ii) that the necessary manpower is trained in the skills required to launch new industries;
(iii) that the countries trading with them should adjust their economies to the new international division of labour.

All these points have frequently claimed the attention of the International Labour Organisation.

Movements of capital

On this first point the Asian Regional Conference, meeting in Tokyo as long ago as 1953, declared:

"that a speedy and substantial increase in the international flow of capital is essential if there is to be the desired improvement in living standards in Asian countries."

Generalizing this opinion in the following year (1954), the International Labour Conference emphasized that:

"the raising of the levels of living and the attainment of other social objectives of the International Labour Organization in under-developed countries require a rapid increase in the rate of capital formation and investment that can be assisted with the aid and proper use of a substantial flow of capital from industrialized to less developed countries" and, after noting with satisfaction the work done by the International Bank for Reconstruction and Development and by the International Monetary Fund, it expressed the belief:

"that it would be in the interest of both the industrialized and the under-developed countries of the world if private capital were allowed and encouraged to participate in the development of less advanced countries through the easing, to the greatest extent practicable, of restrictions on the export of private capital to less advanced countries and through the creation of conditions in these countries which, whilst conforming to national legislation, would make investment attractive to the private investor, would channel investment into the most necessary schemes of social and economic development, would open up fresh avenues of employment and would ensure to the workers fair wages and

30 See "Repercussions of Commodity Price Fluctuations on Primary Producing Countries" and "Action by Governments to Stabilise Primary Commodity Prices" in International Labour Review, June 1959 and March 1962, respectively.
31 Sugar, olive oil and tin.
32 Resolution concerning the United Nations Development Decade, adopted at the 46th session of the Conference by 232 votes to 0, with no abstentions.
33 Resolution on economic and technical assistance for the promotion of economic expansion and social progress in developing countries, adopted unanimously at the 45th session (1961) of the International Labour Conference.
34 Resolution concerning the international flow of capital for economic development.
reasonable conditions of work and employment and a progressively improved standard of living."\textsuperscript{35} The Conference was to return to this same question of the international flow of capital in 1961, when it drew attention to the contribution that might be made to the attainment of employment objectives by various measures such as:

"the promotion and encouragement of international investment, including private investment, under conditions and a code of practices which protect the interests and independence of investors, borrowers and lenders, and of their countries" and

"international grants-in-aid and low interest loans to assist in building up the economic and social infrastructure in developing countries"\textsuperscript{36} while affirming elsewhere

"the desirability for the developed countries to make every effort to encourage an increase in the flow of capital and loans at a low interest rate and on a long-term basis into developing countries." \textsuperscript{37}

Very similar views were again expressed in October 1963 by the Preparatory Technical Conference on Employment Policy in the conclusions on action in the international field to promote employment objectives,\textsuperscript{38} in which it stated:

"Loans and grants, public and private, from industrialized to developing countries, whether on a bilateral or on a multilateral basis, should be promoted and encouraged with a view to increasing production and employment. Such loans and grants should be provided under conditions and a code of practice which protect the mutual interests of all concerned, without infringing the national sovereignty of recipient nations."\textsuperscript{39}

TRAINING OF THE LABOUR FORCE AND EMPLOYMENT CREATION IN THE DEVELOPING COUNTRIES

In making productive investments that create employment the provision of capital by itself is not enough; the necessary supervisors and technicians to run new industries must be available too. Within this field, the ILO has traditionally made a sizeable contribution to the industrialization of the developing countries, particularly in the matter of vocational training and management development. The International Labour Conference and the other organs of the International Labour Organization have frequently emphasised the importance of these human investments which are a condition sine qua non for the productivity of material investments.\textsuperscript{40} At the same time the ILO endeavours, by means of international instruments which give minimum protection to the workers, to see to it that economic advances are not made at the workers' expense and that the desired exports are not achieved by exploiting them. In this connection, it may be pointed out that the International Labour Conference stressed in 1961 that governments should, \textit{inter alia}, "establish plans for economic and social advance including the attainment of international labour standards."\textsuperscript{41} These efforts should, however, be amplified and, with the cooperation of the employers' and workers' organizations, the industrialized countries should give the developing countries aid through bilateral or multilateral channels in the training of qualified local supervisors, including technicians and management personnel. Independently of government action, moreover, foreign investors should increase employment opportunities by employing and training local personnel, including managers and supervisors.

Again, with a view to increasing job opportunities and possibilities of using local resources, member States should promote the exchange of technological processes for increasing productivity and employment by such means as the granting of licences and other forms of industrial co-operation.\textsuperscript{42}

But creating new production structures in the developing countries is not enough; it is also necessary that fruitful exchanges should develop between such countries and the industrialized countries and, to that end, that the latter countries should adjust to the new international division of labour.

ADJUSTMENT OF INDUSTRIALIZED COUNTRIES TO THE NEW INTERNATIONAL DIVISION OF LABOUR

This adjustment implies two things:

(i) firstly, that the formation of potential trading partners will not be hindered;

(ii) that the production structures of the industrialized countries will be modified accordingly.

The ILO has focused attention on both these points on various occasions. With regard to the formation of new trade relations, the International Labour Conference has as long ago as 1958 urged Governments to reduce their tariff barriers in order not to impede the development of trade, due attention being paid to the needs of the developing countries.\textsuperscript{43} More recently, in 1963, the Preparatory Technical Conference on Employment Policy spelled this out in the following statement:

"Industrialized countries should take measures to accommodate increased imports of products, manufactured as well as primary, that can be mechanically produced in developing countries, thus promoting reciprocal trade."

\textsuperscript{35} Resolution concerning the international flow of capital for the economic development of under-developed countries, adopted by 119 votes to 0, with 26 abstentions. The Conference was to return to this same question of the international flow of capital in 1961, when it drew attention to the contribution that might be made to the attainment of employment objectives by various measures such as:

\textsuperscript{36} Resolution concerning employment policy, adopted by 231 votes to 0, with no abstentions, at the 45th session (1961) of the Conference.

\textsuperscript{37} Resolution on economic and technical assistance for the promotion of economic expansion and social progress in developing countries, adopted unanimously by the 45th session (1961) of the Conference.

\textsuperscript{38} Adopted without opposition.

\textsuperscript{39} The decisions of the various ILO bodies on this subject are too numerous and too remotely connected with international trade to be mentioned here.

\textsuperscript{40} Resolution on economic and technical assistance for the promotion of economic expansion and social progress in developing countries, adopted unanimously at the 45th session (1961) of the Conference.

\textsuperscript{41} Conclusions on action in the international field to promote employment objectives, op. cit, adopted unanimously by the Preparatory Technical Conference on Employment Policy.

\textsuperscript{42} See the resolution concerning the expansion of international trade, cited above.
and that

"All efforts should be made to discontinue discriminatory restrictions on foreign trade with a view to furthering the achievement of an international employment policy." 43

Often, however, fears are voiced that large-scale imports of products manufactured cheaply in the developing countries may disrupt the markets in the industrialized countries and precipitate unemployment that would be difficult to absorb. This question of market disruption has been studied by the Office, partly in conjunction with GATT, and the Governing Body has kept developments in this matter under careful review. In particular, it discussed the question of market disruption and of co-operation with GATT at its 147th session (November 1960), and at its 152nd session (June 1962) noted that a Long-Term Arrangement on Cotton Textiles had been concluded under the auspices of the latter organization. 44

In any event, the industrialized countries can hardly be expected to throw open their frontiers to goods from the developing countries that compete with their own products, if these increased imports are bound to result in unemployment for their labour force. It is therefore desirable, at the same time, to provide for a structural adjustment of employment in the economically advanced countries in order that those workers whose present jobs might be threatened by the changing pattern of international trade may be smoothly re-employed in other work. In practice, this is a very important point and it is one which has been considered by the International Labour Conference. At its 45th session (1961), the Conference drew attention, inter alia, to the contribution that might be made to the attainment of employment objectives by adopting appropriate measures such as:

"international commercial policy and special international investment funds or social funds designed to ease the voluntary transfer of workers under satisfactory social conditions from one industry or sector to another as required by shifts in the currents of international trade and by technological change. The funds would include among their objectives the financing of retraining schemes and other expenses involved in the transfer of workers from one occupation or locality to another." 45

Realizing the importance of this structural adjustment of the labour force as a factor which would permit of a new international division of labour, the Governing Body at its 157th session (November 1963) authorized the Director-General to submit a technical paper on "Structural employment problems in industrialized countries caused by higher imports of manufactured goods from the developing countries," to the United Nations Conference on Trade and Development. 46

Conclusions on Action in the International Field to Promote Employment Objectives
(adopted by the Preparatory Technical Conference on Employment Policy)

(Geneva, 30 September-16 October 1963)

1. All member States should co-operate, together with intergovernmental and other international organizations, in the development of an international employment policy. In particular member States should contribute to all efforts to expand international trade and to diminish the repercussions on the level of employment of unfavourable fluctuations in the international terms of trade, and of balance-of-payments and liquidity problems. The industrialized countries in their economic policies, including policies for economic aid and for expanding demand, should take into account the need for increased employment in other countries, in particular in the developing countries.

2. (1) Vigorous and determined efforts should be made to conclude agreements, to be reviewed periodically, ensuring greater stability at fair and reasonable prices in the markets for primary commodities with a view to avoiding disruption of the development plans and employment policies of the developing countries.

(2) Industrialized countries should take measures to accommodate increased imports of products, manufactured as well as primary, that can be economically produced in developing countries, thus promoting reciprocal trade.

(3) All efforts should be made to discontinue discriminatory restrictions on foreign trade with a view to furthering the achievement of an international employment policy.

3. Loans and grants, public and private, from industrialized to developing countries, whether on a bilateral or on a multilateral basis, should be promoted and encouraged with a view to increasing production and employment. Such loans and grants should be provided under conditions and a code of practice which protect the mutual interests of all concerned, without infringing the national sovereignty of recipient nations.

4. International migration of workers for employment which is consistent with the economic needs of the countries of emigration and immigration, including migration from developing countries to industrialized countries, should be facilitated in conformity with the Migration for Employment Conventions and Recommendations and the Equality of Treatment (Social Security) Convention, 1962.

5. Members should explore all possibilities of utilizing food aid to promote employment.

43 Conclusions on Action in the International Field to Promote Employment Objectives, op. cit.

44 The Long-Term Arrangement aims at dealing with the problems that arise in international trade in cotton textiles in such a way as to provide growing opportunities for exports of these products, provided that the development of this trade proceeds in a reasonable and orderly manner so as to avoid disruptive effects in individual markets and on individual lines of productivity in both importing and exporting countries. An essential element of the Arrangement is the recognition that the industries of the less-developed countries should have a fair chance to expand and to compete in foreign markets (GATT: International Trade 1962, Geneva, 1963, p. 74; see also, on this subject, ILO: Minutes of the 147th session of the Governing Body, Appendix XVI, and Minutes of the 152nd session of the Governing Body, Appendix XIII).

45 Resolution concerning Employment Policy (quoted above), adopted unanimously.

46 Reproduced in Vol. III of this series.
6. The possibility should be explored of utilizing for the production of equipment needed in developing countries, capacity that would otherwise be unused in industrialized countries, so as to achieve simultaneously economic growth and employment in developing countries and the maintenance of employment in industrialized countries.

7. (1) Members should encourage the international interchange of technological processes with a view to the increase of productivity and employment by means such as licensing and other forms of industrial co-operation.

(2) The industrialized countries should assist developing countries through bilateral and multilateral channels, with the co-operation of employers' and workers' organizations, in the training of qualified local personnel, including technical personnel and management staff. Such technical assistance should aim at providing the developing countries with suitable facilities for training within the country or the region.

(3) Advice and training should be given in regard to employment policies and labour market organization as an essential element in the field of general development planning and programming.

(4) Foreign investors should increase employment opportunities by the employment and training of local staff, including management and supervisory personnel.

8. International arrangements should be made, preferably on a regional basis, for periodical discussion and exchange of experience in relation to employment policies especially in developing countries, with the assistance of the International Labour Office as appropriate.

9. The ILO should continue and expand its technical co-operation activities in the various fields of employment problems and policies. It should, in particular:

(a) seek close co-ordination with the work in this field of other specialized agencies and the United Nations, so as to increase the effectiveness of the activities of all the organizations;

(b) provide experts as well as technical manuals, other documentation and teaching materials, especially for standard qualifications;

(c) undertake research into the employment capacity and productivity (including research into measures to increase productivity) of different economic sectors under conditions of differing levels of technology as a basis for the scientific analysis of manpower needs and productivity;

(d) collect and disseminate information from comparable economic sectors in various countries as a basis for improved co-ordination between manpower policies and policies for economic and social development.
MEMORANDUM SUBMITTED BY THE INTERNATIONAL CONFEDERATION OF FREE TRADE UNIONS*

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I. INTRODUCTION

The ever-increasing gap between the developing and the advanced countries has become one of the most alarming problems of the present time. Though both the developing and the advanced countries have mobilized important means to accelerate the economic growth of the less-developed areas of the world, all these means have so far proved inadequate. The developing countries not only have not reached the stage of self-sustaining growth, but most of them have not even come any closer to this turning-point in their history.

Continued prosperity and economic expansion in the industrial countries is one of the basic conditions for the rapid advancement of the developing ones. However, the advanced nations should take steps to share the fruits of their technical and economic achievements more purposefully with the developing areas.

One of the reasons for the slow progress of the development efforts undoubtedly lies in the insufficient utilization of international trade for this purpose. A situation has even emerged where at least some commercial transactions have become what several economists have termed “counter-aid”, resulting in a more or less systematic return to the industrial countries of a considerable part of the resources which they had transferred to the developing countries by means of aid. Therefore, it is only logical that the battle-cry “Trade, not aid”, which first emerged in western Europe during the later stages of the post-war recovery, has again become popular. The lesson to be learned from this development is of course not that the time has come to eliminate aid and try to solve all problems through trade—aid must continue and in fact must be gradually increased—but it has become urgent to examine thoroughly the current channels and methods of international trade and to reform them. Trade should not only not counteract the effects of aid, but strengthen them.

The policies to be devised for this purpose cannot be limited to purely commercial problems. The whole complex of development measures must be taken into account and, where appropriate, modified in harmony with the new trade patterns.

It is especially important to design both the trade and development policies in such a way as to make sure that the rise in the national incomes of the developing countries will serve continuously to raise the living standards of their population. Policies which would merely strengthen the States without increasing the welfare of the peoples should not be entitled to international support.

This tremendous task cannot be achieved by governments alone. It is a task facing the whole of society. Unless all the organized forces of society, and in the first place organized labour, play an active and constructive part, even the best solutions are bound to remain a dead letter. It is only fair to add that the same organized forces of society, which are alone capable of transforming projects into effective and continuous action, could become a serious obstacle if they were not given an opportunity to participate fully.

II. SUMMARY OF PROPOSALS

A

(paragraphs 10-20)

The developing countries must import merchandise in much greater quantity and variety, in order to

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* The Secretary-General of the Conference was requested by the International Confederation of Free Trade Unions (ICFTU), a non-governmental organization in category A consultative status, that this memorandum be brought to the attention of the Conference.
secure from abroad not only the investment goods needed for their development plans and the foodstuffs for their population, but also to create and expand their internal markets. Even if raised to the highest imaginable level, the export proceeds of the developing countries would still fall considerably short of meeting their import needs. Not even export earnings plus foreign aid would be enough. More sources of financing imports must be found, especially in the field of private foreign lending.

While there is little hope of radically increasing direct foreign investment, the export-credit system should be rendered more favourable to the developing countries.

The necessary increase in imports into the developing countries should be facilitated by systematic efforts to match, as far as possible, their import needs and the unutilized productive potential of Western industries, and then to link them together by means of the improved export-credit system.

In certain cases these credits should be extended by Governments within the framework of their domestic programme of full employment and growth. Capital-intensive and financially-sound industries should themselves create the credit needed to expand their production and finance their exports. In so far as the unit cost of production would be reduced by the utilization of hitherto idle capacities, the export credits initially extended to the developing countries should eventually be written off, partly or entirely.

Export credits should thus be further assimilated to development credits.

Specific industry-by-industry programmes should be worked out jointly by management and labour and acted upon by Governments, in order to cover in a concerted way all aspects of the possible operation of every industry in this field: imports from the developing countries and exports to those countries, credits, foreign investment, and aid.

B
(paragraphs 21-24)

To sustain the growth in trade, world monetary reserves must grow. The world supply of gold cannot keep pace with the desired expansion of international trade, and the dollar and sterling claims should not be increased in the years to come. Therefore, monetary reserves should be centralized in the hands of a body also authorized to create credit as and when required to finance the expanding volume of international transactions.

In addition, the central monetary body should be able to engage in the provision of direct and indirect assistance to the developing countries.

C
(paragraphs 25-37)

The economy of the advanced countries should be adapted so as to provide considerable and increasing outlets for the industrial products of the developing countries. This should be an orderly process, guided by a deliberate national policy which would allocate to imports from the developing countries a definite or ever growing part of the existing demand for goods and a growing part of the future increase in demand.

In the case of certain goods, a mere reduction or an outright abolition of import duties may suffice to this effect. In other, more numerous cases, selective preferential treatment should be granted to the goods exported by the developing countries. This could be achieved by a general preference, complemented by a series of exceptions regulated by a set of international quota agreements on specific goods. Or preferential tariffs could be applied to specific goods, selected on the basis of the "infant-industry" criterion and with a view to favouring those exporting industries which could contribute to the improvement of working conditions and general living standards; the need for international quota agreements on certain specific goods might still subsist if this method of preferential treatment were adopted, but to a very limited extent.

To adapt the industrial economies to the developing countries' need for broader outlets, the national policies of full employment and economic stability must be strengthened. Governmental adjustment programmes should be devised to offset as much as possible the adverse effects which an increase in imports from the developing countries might have upon the must vulnerable industries and regions. These programmes should proceed by anticipation, so as to reduce the need to compensate the affected industries and workers for the losses actually inflicted on them. Incentives should be created to shift resources to industries the expansion of which is desirable; more attractive jobs, retraining facilities and relocation allowances should be offered to the workers employed in the industries which will be affected by the imports from the developing countries. A powerful means of securing full employment in spite of increasing imports can be found in a purposeful handling of long-term export credits both to meet the import needs of developing nations and to utilize the productive potential of the advanced ones to the full.

The advanced countries should help to bring the growth of export industries in the developing countries into line with the growth of their own import needs. Policies of creating markets for the developing countries' exports should consistently though indirectly influence the decisions of these countries regarding the choice of the industries to be set up or expanded. The endeavour of the advanced countries' industries to exploit their unutilized potential in order to meet the import needs of the developing countries should be oriented toward the promotion of industries likely to find outlets abroad.

These national policies of the developed countries should be integrated, together with the development plans of the developing countries, into a comprehensive international programme in order to subject to multilateral control the granting of preferential tariffs; to concert the policy of creating outlets for the developing countries' exports with the policy of meeting these countries' import needs; to promote an increase in trade among the developing countries and...
to promote balanced production-consumption patterns on national or regional levels.

D

(paragraphs 38-44)

There should be an assessment of present and, as far as possible, of future world requirements of primary commodities. Developed countries should give a guarantee that they will accept definite amounts of developing countries' primary products.

International agreements covering groups of interrelated products rather than single commodities should be promoted so as to avoid the conflicts of interest between producing and importing countries which tend to dominate negotiations dealing with one commodity at a time. Arrangements concerning single commodities should take into account their effects on other commodities.

Direct producers, both management and labour, should actively participate, together with governments, in the negotiation and administration of international commodity agreements.

In the perspective of a rapid expansion of the developing countries' need to import primary commodities, two or three-tier agreements should be set up: once the effective world demand has been met, measures should be devised to utilize the remaining production potential in such a way as to increase the supplies available to the developing countries beyond the quantities for which they can afford to pay (barter arrangements, schemes comparable to the existing food-aid, single-commodity pools, etc.). If some excess potential still remains after the developing countries have been allocated all the surpluses they can absorb, measures to sterilize this potential in a way similar to that provided for in the Coffee Agreement should be designed.

A system of compensation to the primary exporting countries for losses due to price fluctuations should be adopted urgently.

E

(paragraphs 45-51)

Efficient transport systems must be set up in the developing countries, co-ordinating the different forms of transport within each country and with transport development in the surrounding countries.

Assistance should be given to the developing countries to build up their own merchant marines and thus to improve their position in the invisible trade. Due attention should be paid to the sort of link required between ship and State, to the ILO Conventions and recommendations, and other matters of international law.

Adequate ports and port facilities—including modern, but not necessarily fully mechanical, equipment—should be established.

Road transport should be furthered by the planned building of adequate roads strong enough to bear heavy traffic, and by the creation for the transport workers of the safety conditions which have been found necessary to an efficient industry.

Projects of civil aviation in the developing countries should be handled with great caution since their airlines run the risk of operating, like most of the world's airlines, at a loss and thereby of worsening their invisible trade position.

To obtain the efficient personnel necessary to any transport system, standards of qualifications, adequate training schemes and machinery to test the competence of their graduates should be set up.

F

(paragraphs 52-55)

The international machinery needed to implement the proposed policies should be based on the principles of decentralization and plurality.

The machinery dealing with trade in industrial products should be established by the countries, both developing and advanced, that are major importers and exporters of industrial products to and from the developing countries, and that are ready to accept definite commitments within the framework of the proposed programme. The representation on this body should be proportionate to the share of every participant in the flow of trade in question.

The body thus established should consist of: a general organ grouping all participants which would define general policies; an autonomous organ of all the participating under-developed countries, which would pool the resources and markets made available and allocate a fair share to every participant (this assembly of the developing nations might delegate some of its attributions to regional groups); several functional committees acting as autonomous bodies and dealing with specific kinds of industrial products.

The whole body should have a tripartite structure similar to that of the International Labour Organization where the Member States are represented by employers' delegates and delegates of workers at the same time as by governmental delegates.

In order to organize the world commodity markets and to co-ordinate this venture with the policies pertaining to the developing countries' trade in industrial products, an international policy-making body should be established by major exporters and importers, represented in proportion to the share of each in world commodity trade.

This body would become a common secretariat of the councils administering the existing commodity agreements and should also be in charge of the commodity study groups. It should consist of a general organ, of a series of standing committees dealing with groups of interrelated commodities, of the study groups and of the commodity councils. Each of these organs should be autonomous. Though operating as an autonomous body, the general organ should have a large, if not always preponderant, influence in the conclusions of the standing committees and the study groups, as well as in the decisions of the commodity councils.
The entire body should have the same tripartite structure (governments-employers-workers) as the ILO and the proposed machinery for the developing countries' trade in industrial products.

In order to avoid unsound competition and overlapping, the proposed machinery, both for industrial products and for primary commodities, should be established, as far as possible within the framework of the existing international institutions, as a joint venture of the United Nations, GATT, IMF, FAO and ILO.

III. NEW TRENDS IN WORLD PRODUCTION

1. International trade has reached a stage where a thorough reorganization of world markets and an imaginative reappraisal of the techniques of trading are overdue. Many current theories justify international trade on the assumption that the international division of labour results from the "harmonies of nature". This is unrealistic. The tropical and sub-tropical countries no longer limit themselves to the production of certain foodstuffs and materials; the temperate zone no longer has the monopoly of industry. Attempts have been made to adjust international trade piecemeal. But adjustments of this kind cannot meet the requirements of the new patterns of economic activity throughout the world, as they are emerging from the following trends:

(a) In all countries an increasingly substantial proportion of industrial production has been concentrated in the hands of a relatively small number of big enterprises capable of eliminating competition. In the wealthy industrial countries, this rise of monopoly, or rather oligopoly, has been partly held in check by the development of what Professor Galbraith calls the "countervailing power". By reaction to the overwhelming power exercised by these relatively few firms, forces have developed which impose some restraint upon them from a position across the market. The big companies have to bargain with strong trade unions in the labour market; in the market of their own produce, these industrial firms must come to terms with large retail organisations; agriculture consolidated by co-operative arrangements or by the support measures of Governments has acquired real bargaining power in the raw materials market. True enough, the domination of the big industrial firms over the market has not been eliminated by these various forces; but at least the most devastating effects of industrial oligopoly on other economic sectors are seriously limited.

(b) A steadily growing role among the leading industrial nations has fallen to countries richly endowed with natural resources. The dependence of industry upon imports of materials and food has correspondingly kept decreasing. This is an irreversible trend. It is bound to become even stronger during the new phase of world industrialization that is beginning to take shape with the spread of industries in traditionally agricultural areas.

(c) A revolutionary change in agricultural economy and technology, backed in many cases by governmental support measures, has radically increased the requirements of capital and land for rational production. As a result, wealthy developed countries have achieved a considerable superiority over the traditionally agricultural countries in terms of the productivity and profitability of agricultural pursuits. Thus, from 1933-1938 to 1958-1960, the average yield per hectare of twelve major crops (wheat, rye, barley, oats, maize, rice, potatoes, soybeans, ground-nuts, tobacco, cotton, and jute) increased by 78 per cent in North America, by 52 per cent in Oceania and by 29 per cent in western Europe, but only by 14 per cent in Latin America, by 6 per cent in the Far East and by 2 per cent in the Near East; the only under-developed region which witnessed a major increase was Africa (28 per cent) where, however, the average yield remains extremely low. The part of wealthy countries in world agricultural production is steadily rising.

(d) Many developing countries have neglected the production of food, both for their own population and for export. In Latin America, and the Far East, the per capita agricultural produce is at present smaller than before the Second World War, and the decrease has been greater for food products than for agricultural produce as a whole. Attempts to explain this by overpopulation are misleading; by all meaningful standards, Latin America is an under-populated continent and the decrease has been even stronger in Latin America than in the Far East. In India, official statistics reveal that the current amount of food grains available per head is two-thirds of what it was in 1890 and some historians think it was lower in 1890 than in the eighteenth century. Yet even in India, which actually suffers from a strong population pressure, there are large areas of uncultivated land. Furthermore, India has one-quarter of the total cattle population of the world, but its cattle make a negligible contribution to food supplies. Not only is consumption of meat prohibited by religion and by regulations against cattle slaughter, but the production of milk is extremely low. Fourteen Far-Eastern countries account for about 40 per cent of the world's total of cows and buffaloes, but produce only 10 percent of the world's milk output. At the end of the nineteen-sixties, while aggregate agricultural exports from Southern and south-Eastern Asia were more than one-fourth below the level of the immediate pre-war years, agricultural imports were about a third higher. In certain non-industrial countries governments have even pursued a policy of what the Haberler report has termed agricultural "anti-protection": in Argentina, West Africa, India and other areas, domestic producers have been paid prices lower than those corresponding to the world market prices, thus weakening agricultural economy and reducing world food supplies.

2 FAO, The State of Food and Agriculture 1963, Rome 1963, Table I-III.
3 Ibid, Tables II-2 and II-3.
(c) A similar attitude toward agriculture, particularly food production, has prevailed for a long time in the Soviet Union and, since the Second World War, in eastern Europe. The capacity lost in eastern European countries during the War has not been entirely recovered. The whole COMECON area has been transformed from a major surplus region for wheat and other food items into a deficit region. The agricultural “anti-protection”, pointed out by the Haberler report in respect of certain non-industrial countries, has been practised in a much more radical way by the governments of the COMECON countries: producers have been paid prices considerably below the level corresponding to the retail prices charged to the consumers.

(f) The technical progress achieved in industry and agriculture has led to a tremendous diversification of primary commodities and especially of their processing and possible utilization. At the same time, the production of synthetic substitutes keeps increasing at a pace widely outdistancing the growth in demand for materials. As Professor J. B. Meade puts it: “It is an outstanding feature of modern technological advance to devise alternative ways of producing a needed material or to devise alternative ways in which a need can be satisfied by the use of an alternative material”.

Each primary commodity is virtually exposed, for every specific final use, to the competition of substitute products (natural or synthetic) and is itself, indeed, a potential substitute for other products.

(g) An important industrial development has taken place in many traditionally agricultural nations. In spite of their much higher average productivity, the most advanced countries have witnessed a definite decrease in their share of the world industrial output. The share of these countries in the world output of mining declined from 77.2 per cent in 1938 to 68 per cent in 1958. A slight decline occurred even in their share in the world output of both light and heavy manufacturing, from 77.4 per cent to 76.5 per cent and from 83.4 per cent to 82.9 per cent respectively; however, the share of these countries in manufacturing as a whole grew a little from 80.1 per cent to 80.3 per cent because of their greater concentration on the more productive heavy manufacturing than on light manufacturing and of the increasing rate of heavy manufacturing in the total industrial output. The Haberler report singled out Argentina, Australia, Brazil, Finland, India, Mexico and South Africa as countries no longer belonging to the non-industrial areas of the world, but rather forming a separate, semi-industrial group. In a recent attempt to classify countries by degree of industrialization, the Statistical Office of the United Nations, having used the criterion of value-added in industrial pursuits per head of population, has established the following hierarchy:

Class I ($200 and over): northern North America, Australia, New Zealand, Austria, Belgium, Den-
mark, France, Federal Republic of Germany plus West Berlin, Luxembourg, Netherlands, Norway, Switzerland and United Kingdom;
Class II ($100-199): South Africa, Argentina, Uruguay, Finland, Ireland and Italy;
Class III ($50-99): Portugal, Spain, Yugoslavia, Chile, Mexico, Venezuela and Japan;
Class IV (under $50): Greece, Turkey, the islands of Oceania, all countries of the Middle East and of Africa except South Africa, the whole of Latin America except the five countries listed under classes 2 and 3, and East and South-east Asia except Japan.

Still another recent classification, based on the double criterion of the net value of the production of manufactures per head of population and the proportion of exports consisting of finished manufactures, has placed the following countries in the “semi-industrial group”: Australia, New Zealand, South Africa, India, Argentina, Brazil, Chile, Colombia, Mexico, Israel, Turkey, Yugoslavia, Portugal, Spain, Greece and Ireland.

(h) The establishment and growth of industries in the under-developed countries has frequently been marked by maladjustment between production for home consumption and production for export. In some cases, the industrialization drive has concentrated upon the building-up of plants producing exclusively for markets abroad. This is due partly to the weakness of the internal demand and partly to the difficulties of promoting a balanced growth of various economic sectors. “Producing for export”, says Professor Lewis, “has not the same disadvantages as producing for the home market. It does not depend upon demand growing appropriately in other sectors; it gives rise to no competitive struggle at home, since in the early stages world demand is large, relatively, to the output of individual products in a single country; and it is not dependent upon effective demand at home.” However, this method of industrialization produces tremendous difficulties at later stages. As the output grows, it becomes increasingly difficult to sell it in foreign markets. The pressure of international competition engenders the tendency to maintain the initially low labour standards and to share the benefit of the rising productivity with customers abroad through price reductions, rather than with the workers through vocational training, housing construction, wage increases, more articulate labour relations, social benefits, etc. In this way, the foundation of plants exclusively centred upon exports stimulates the general development of the national economy only through the establishment of transport, communications and similar facilities which can also be used for the benefit of other industries and agriculture, while at the same time it creates additional factors contributing to the

2 United Nations, International Commodity Agreements (see Vol. III of this series).
3 United Nations, Patterns of Industrial Growth 1938-1958, New York 1960, Table XII.
4 GATT, Trends in International Trade, p. 25.
backwardness. The situation which arose in the perpetuation of the general economic and social world trade in apparel, is a warning example.

In other cases, the main purpose of industrialization has been import-substitution and no major effort has been made to promote exports at the same time as to supply the internal market. Industrial development always tends to substitute domestic products for imported goods. But excessive concentration on this side of the process, whether intentional or involuntary, is wasteful. The possibilities of reasonably economic supply the internal market. Industrial development always tends to substitute domestic products for imported goods. But excessive concentration on this side of the process, whether intentional or involuntary, is wasteful. The possibilities of reasonably economic import-substitution are quickly exhausted, so that a policy strongly leaning in this direction sooner or later leads to uneconomic measures and even to a straining for autarky. Furthermore, economic development, which makes some imports expendable, simultaneously creates the need for others. Attempts to avoid this consequence favour the creation of additional industries which are less and less efficient. As a result, tariff measures adopted to shelter infant industries gradually lose their proper function, that of advancing the growth of those industries that might eventually attain world standards of efficiency, or make an exceptionally great contribution to the general development of the country. These measures then develop into a general protectionist policy which puts a drag on economic and social development: such a policy obliges the consumers to support the high cost of industries that cannot reach high levels of efficiency; by the same token it penalises those that could do so if they were not isolated from international markets.

(i) The developing countries have pursued their economic policies and industrialization drives with little or no co-ordination among themselves, even within the same region. In many cases, protectionist measures have been applied in such a way as to shelter their industries against the competition not only of the highly efficient production of the wealthy countries but also of the incipient industries of other developing countries. This lack of co-ordination has made it more difficult to reach the optimum proportions between agricultural production for the internal market, manufacturing for the internal market, and production for export. Few efforts, if any, have been made to match the industrial export drive of one country with the need of other developing countries to dispense with the import of certain goods from the wealthy States. Moreover, the unfavourable effects both of excessive concentration on exports and of excessive concentration on import-substitution have been considerably aggravated. The pressure of competition, which leads export industries to exclude their workers from the benefit of the increasing productivity grows much faster if the export drive is directed solely or predominantly toward the heavily encumbered markets in the industrial countries. On the other hand, as pointed out in the report of the Secretary-General of the Conference on Trade and Development, the possibilities of a reasonably viable import-substitution are much more restricted if this process is confined to a single country.\[15\]


by no means the only one. Idle productive potential exists to a lesser extent in other industrial countries, even those which have more or less achieved full employment. Many workers in the full-employment countries have jobs which do not correspond to their skills. Moreover, over-all full employment does not exclude the existence of unutilized capacities in specific industries or regions. On the other hand, in certain industrial countries the limited capacity of some vital industries may create bottle-necks slowing down industrial expansion.

IV. NEW LONG-RANGE FACTORS IN INTERNATIONAL TRADE

2. These new trends in the sphere of production have gradually dislocated the traditional pattern of trading. Their pressure, as well as the reactions of the intrinsic forces of international trade, have brought about a series of new long-range factors which deeply affect the world market. The following are the most important among these factors:

(a) The share of the industrially most advanced countries in the exports of agricultural products, and especially of food, has radically increased, while the non-industrial areas of the world have raised their share in imports of these commodities. As compared with the situation prior to the Second World War, North America and western Europe have more much increased their exports of agricultural products, and especially of food and feed items, than their imports, while all the traditionally agricultural regions have stepped up their imports much more than their exports. This is clearly shown by the following indices of the 1958-1962 average volume of imports and exports (1954-1958 = 100): 18

<table>
<thead>
<tr>
<th>Region</th>
<th>Food and feed exports</th>
<th>All agricultural products exports</th>
</tr>
</thead>
<tbody>
<tr>
<td>Western Europe</td>
<td>125</td>
<td>119</td>
</tr>
<tr>
<td>North America</td>
<td>143</td>
<td>129</td>
</tr>
<tr>
<td>Latin America</td>
<td>206</td>
<td>208</td>
</tr>
<tr>
<td>Far East</td>
<td>132</td>
<td>133</td>
</tr>
<tr>
<td>Near East</td>
<td>512</td>
<td>395</td>
</tr>
<tr>
<td>Africa</td>
<td>237</td>
<td>237</td>
</tr>
<tr>
<td>Oceania</td>
<td>223</td>
<td>196</td>
</tr>
<tr>
<td>World</td>
<td>141</td>
<td>131</td>
</tr>
</tbody>
</table>

To a lesser extent, the same applies even to some non-agricultural commodities. Thus, between 1950-1952 and 1959-1961, the share of North America in the volume of world exports of copper metal rose from 17 per cent to 22 per cent and of lead ore from 8 per cent to 12 per cent; western Europe increased during the same period its share in the volume of world exports of aluminium from 22 per cent to 28 per cent, of lead ore from 8 per cent to 14 per cent, of lead metal from 20 per cent to 23 per cent, of zinc ore from 19 per cent to 25 per cent.19

(b) For a variety of historical reasons, international trade has not brought about the self-generating regulatory force of countervailing power that in the highly developed countries arises as an across-the-market curb on the economic power that eliminates competition. Some forces which within the industrial countries function as elements of countervailing power, e.g., trade companies providing raw material supplies for powerful industrial firms, have themselves achieved an unrestricted position of oligopoly on the international scale. The world markets of primary commodities, which mostly remain competitive for the sellers, have in many cases been transformed into buyers' markets, that is, markets dominated by buyers.

(c) With the sole exceptions of pork meat and coal, exports of which to western Europe have been resumed, eastern Europe withdraw from the international commodity markets and is currently a net importer.20 This has hardly anything to do with the secular trend, as observed in countries like the United States and Japan, which transforms net exporters of primary commodities into net importers and, at the same time, into net exporters of manufactured goods.21 The change in the position of this region in the world market is mostly due to the adoption by every Eastern European State of the Soviet method of industrialization with its striving for autarky, based on a massive transfer of workers, income and capital from rural communities to mining and heavy industries. Indeed, while eastern Europe remains more dependent on foreign trade than the USSR, the relative importance of its transactions is rather limited. In 1958, foreign trade turnover per head of population was $43 for the USSR, $115 for eastern Europe, $176 for the United States, $276 for the European Economic Community, and $293 for the rest of western Europe.22

(d) With very few exceptions, the world market prices of primary commodities have not followed the upward trend of the prices paid in the industrial countries to domestic producers. Two separate price systems have thus developed. The developing nations, up to 90 per cent of whose exports consist of primary commodities, have thus been excluded from the benefit of the higher prices applied in the home markets of the advanced countries. Since at the same time the entire economy of the developing nations generally depends on foreign trade to a much larger extent than the economy of the wealthy ones, this has actually excluded them from the benefit of the potential means of sustaining their own social and economic development.

Moreover, the world market prices of primary commodities no longer reflect the processes of production, since they only apply to the exportable surpluses which often represent a mere fraction of the total production. In 1957-1959, for example, the quantities entering into world trade represented 6 per cent of world production for livestock products, 7 per cent for dairy products, 10 per cent for cereals, 16 per cent for citrus fruit, 32 per cent for fats, oil

18 United Nations, Commodity Survey, 1962, Table 3.
and oilseds, 33 per cent for sugar. It is true that in the
case of other commodities, world trade absorbed a
major part, and in a few cases an overwhelming part,
of world production: 58 per cent for cotton, 60 per
cent for coffee, 70 per cent for tea, 73 per cent for
jute, 81 per cent for cocoa, 97 per cent for rubber.23
But due account must be taken of the intense com­
petition between various commodities as potential
substitutes for each other. The price relations between
commodities affect this competition. Therefore, if
the world market prices of the commodities mainly
produced for domestic consumption followed the
upward drift of the prices paid in the internal markets
of the industrial countries, even commodities pre­
dominantly destined for exports would more or less
benefit from this trend; rubber might possibly con­
stitute a major exception, since the price of the natural
product is checked by the price of the synthetic sub­
itute, which is by some 30 per cent cheaper; to a
lesser degree this also applies to fibres.

(e) The terms of trade between the exports of the
developing countries and their imports have been
adversely affected by several concurrent factors.
The increasing disparity of the world market prices
of primary commodities with the prices paid to
domestic producers in the industrial countries has
exerted a strong influence in this connexion. Equally
important has been the lack of co-ordination and of
trade among the developing countries. The trend
which prevailed during the 1940s when the prices
of primary commodities were steadily rising because
the supply of these commodities could hardly keep
pace with the demand, might have been maintained
through an expansion of trade in food and materials
between the developing nations, even after the sudden
slack in demand from the industrial countries which
occurred in the early 1950s. However, the necessary
links (transport and related facilities, credit, ar­
rangement concerning the payments, etc) were not
established in time between the sources of food and
materials supply and the development projects
throughout the underdeveloped part of the world.
Since the potentialities of commodity trade among
the developing countries were neglected even during
the 1950s, which was a period of sharp decline in
prices, special effort would be needed to achieve a
turn in the right direction at the present stage of a
marked recovery of the previous losses. While prac­
tically all experts agree that future growth of com­
modity trade will mainly depend on the pace of
economic growth of the developing countries, it
appears that such a growth could be achieved by
purposeful policies without awaiting automatic re­
percussions of future events. At the same time, the
expansion in exports of foodstuffs and materials
from one developing country to another would con­
siderably increase the importing country’s possibil­
ities of economic growth. Finally, the terms of trade of
the developing countries have suffered from the
weaknesses of their internal markets, which to a
certain degree are imputable to the neglect of their
production of food for domestic consumption.

The decline in the terms of trade between the
developing and the industrial countries during the
1950s cannot, of course, be properly considered as a
long-term development; this concept has always
been reserved to trends covering several decades.
Moreover, the theory according to which there has
been a secular deterioration in the terms of trade of
primary commodities is highly controversial.26
Nevertheless, the recent inquiries by Professor
Kindleberger into the terms of trade of the European
countries seems to indicate rather convincingly that
for every group of countries at approximately the same
level of development the terms of trade in the long
run deteriorate in its trade with more-developed coun­
tries and improve in its trade with the less-developed
ones. The main cause of this seems to lie in the degree
of development itself. On the other hand, Professor
Kindleberger has shown that no general long-term
trend can be established for primary commodities as a
whole.27 The conclusion may be drawn from these
findings that the price trends of primary commodities
are not pre-determined by any objective conditions
and may therefore be strongly affected by deliberate
policies. This is the more important since the present
level of commodity prices is obviously so low that
the exports of primary commodities cannot secure
adequate means for the developing countries to finance
their development.

(f) The impact of the fluctuations of commodity
prices on the economy of the under-developed
countries has increased in connexion with the develop­
ment efforts of these countries which put a severe strain
on their balance of payments. Since their capacity to
import, which is one of the main pillars of develop­
ment, depends to a large extent upon the proceeds of
the export of primary commodities, every sudden
fall in commodity prices threatens the continuity of
their development policies. This disruptive effect of
price fluctuations has been aggravated by the dis­
sociation of the price trends of primary commodities
and industrial products: prior to the Second World
War, the prices of manufactured goods as a general
rule fluctuated in the same direction as those of
primary commodities; at present, the two sets of
prices have a definite tendency to move in opposite
directions.27

23 FAO, Agricultural Commodities—Projections for 1970, Table 2,
24 See for example W. Arthur Lewis, Economic Survey 1919-1939,
pp. 183 and 187; FAO, Agricultural Commodities—Projections for
1970 for food; United Nations Commodity Survey 1962, p. 81,
Report of the Group of Experts appointed under resolution 919
(XXXIV) of the Economic and Social Council, para. 30, and World
25 The present terms of trade both of agricultural and food
products and of the over-all exports of non-industrial countries
seem to be very close to the terms of trade of 1913 and of 1928
(see GATT, Trends in International Trade, Table 15). Moreover, it
has been rightly pointed out that any conclusion about the past
movements of the terms of trade depends on the choice of the base
period; that over any prolonged period the volume and composition
of world trade are likely to change so greatly that any particular
base loses all significance; that there are far-reaching changes in the
areas and methods of production, in the costs of production and
transport, and in the quality of the products exchanged (Peter T.
Bauer and Basil S. Yamey, The Economics of Under-developed
26 Charles P. Kindleberger, The Terms of Trade: A European Case
27 M. Mouly, “Quelques aspects économiques et sociologiques de la
stabilisation des prix des produits de base”, Cahiers de l’I.S.E.A.,
Series F, No. 7.
(g) Because of the lack of co-ordination between the economic policies of the developing countries, the potentialities of trade in manufactures among themselves have not been explored and the export drive of their industries has been directed almost exclusively toward the old, established markets in the industrial countries. This is the more striking since the potentialities of trade between the developing countries are indeed tremendous and could easily become one of the main levers of their development, as regards both the industrialization and the rationalization of primary production. Moreover, the export outlets in the traditional market-places of world trade have frequently remained extremely limited for the new industries of the developing countries because of the inability of the industrial countries sufficiently to shift their productive efforts to more complicated industries and to the more elaborate later stages of processing and manufacture, or because of insufficient expansion of demand.

(b) In their export drive, the industrial countries have aimed chiefly at one another’s home markets, to such an extent that this drive could easily degenerate into trade wars. The advanced countries have concentrated more on competing against each other for existing markets than on discovering and creating new areas of consumption. While the economic growth of the developing countries is seriously hampered by the insufficient volume of their imports, especially of manufactured goods, the markets in the developed countries are encumbered by surpluses steadily switched, under the pressure of competition, from one market-place to another. The impact of these surpluses is extremely costly in terms of wasted resources, through unemployment and idle plants.

V. CONDITIONS OF REFORM

3. The increasingly anachronistic structure of the traditional pattern of world trade manifests itself most dramatically in the apparent impossibility of bringing consumption into balance with supply and, at the same time, of meeting the consumption needs in vast areas of the world. It is precisely the dramatic nature of these manifestations that fosters the inclination to proceed with piecemeal adjustments rather than with fundamental, though necessarily gradual, reforms. The failure of such adjustments to create a new pattern engenders at the same time the opposite temptation to design such a pattern mainly on logical grounds, without fully taking into account the fact that international trade must go on undisturbed amidst the reforms. It thus appears that a truly radical reform can be achieved only:

(a) if all the current shortcomings and emergencies are taken for so many points of departure, instead of being tackled separately and at different times;
(b) if they are tackled in a concerted manner;
(c) if the remedial actions are devised in such a way as to affect the underlying long-range factors.

4. It would be unrealistic to expect from each group of countries a contribution of equal importance to this reform:

(a) The developing countries, most affected by the deficiencies of the present structure of world trade, lack adequate economic means to force the necessary reshaping of world markets.

(b) No major contribution to this undertaking can be expected from the USSR. Since the USSR has been striving for autarky for decades, its share in the volume of world trade is insignificant. This also applies to the other countries that have adopted the same pattern of economic policy. Though the exports of Albania, Bulgaria, mainland China, Czechoslovakia, Eastern Germany, Hungary, Mongolia, North Korea, North Viet-Nam, Poland, Romania and the USSR to one another have been raised from 0.7 per cent of aggregate world exports in 1938 to 5.5 per cent in 1950 and to 8.7 per cent in 1960, the exports of these countries to the rest of the world declined from 6.7 per cent of aggregate world exports in 1938 to 3.3 per cent in 1960.30 True enough, the foreign trade of these countries has been increasing in recent years, especially since the rates of growth of the Soviet economy started declining as a result of the achievement of full recovery from the war-time losses. But since the basic striving for autarky is one of the fundamental built-in elements of the Soviet pattern of national economy, there is thus far no prospect that this recent development would eventually expand to the extent necessary to transform the USSR into a major trader. Moreover, the share of the developing countries (Africa, South America excluding Cuba, and Asia excluding Japan, mainland China, Mongolia, North Korea and North Viet-Nam) in the foreign trade of the USSR remains very limited: 5.91 per cent in 1956, 9.34 per cent in 1958 and 7.5 per cent in 1960.30 According to a paper prepared by the UN Centre for Industrial Development on behalf of the Conference on Trade and Development, the exports from the developing to the developed countries increased by $2650 million from 1955 to 1961, while during the same period their exports to the “centrally-planned economies” nearly increased by $895 million; the second figure would be even smaller if the tremendous increase in exports from Cuba were left aside.

(c) The necessary adjustment of world trade to the new economic realities must therefore be undertaken mainly by the wealthy industrial countries of the Western world. A fundamental reform in their trade policies is needed to this effect. Nineteenth century concepts of trade must be replaced by a trade policy aiming at growth and technological innovation, both in the industrial and in the developing countries. This is by no means contrary to the interests of the advanced countries which have to carry out the major part of this transformation.

5. The increasing difficulty of sticking to the obsolete pattern of world trade is illustrated by the

32 General Study of Exports of Manufactures and Semi-Manufactures from Developing Countries and their Role in Development, Tables 5 and 8.—Vol. III of this series.
declining importance of such a traditional flow as the Commonwealth trade: between 1960 and 1962, British exports and re-exports to Commonwealth countries declined again, 11 per cent by value; the United States account for over a fifth of current Commonwealth trade both ways, Great Britain for about a fifth. An even more striking symptom is the startling success of arrangements which are new to such an extent that they can hardly be defined in terms of traditional trade policies:

(a) Advanced countries have established consciously devised groupings among themselves. Such are the Organisation for Economic Co-operation and Development (OECD), the European Free Trade Association (EFTA), and even more the European Economic Community (EEC). Another new combination of highly advanced countries, which is still in the making, is implied in the United States Trade Expansion Act with its insistence on across-the-board cuts in tariffs instead of negotiating item by item; whatever solution may be finally reached between the United States proposal to cut all tariffs uniformly and the EEC proposal to adopt differential tariff reductions based on the disparities between the tariffs in force in various countries, and whatever delays may occur before the actual negotiation takes place, the principle of the across-the-board tariff reduction can hardly be abandoned.

(b) The increasing willingness of the developed nations to co-operate in the developing nations' striving for progress has found its expression in such radically new phenomena as the granting of aid, the increasing participation of the consumer countries in the commodity agreements, the Alliance for Progress, the GATT Programme of Action, the decision of the International Monetary Fund to liberalize its drawing policies so as to contribute to a compensation of short-term fluctuation in the earnings of primary product exporters, etc.

(c) Certain developing countries have started devising new economic combinations among themselves, such as the General Treaty of Central American Economic Integration, the Latin American Free Trade Association, the Afro-Malagasy Organisation of Economic Co-operation, the programmes for an African Common Market, etc. While some of these combinations are still at a blueprint stage, some others are already yielding tangible results.

6. Most of the apprehensions raised by the establishment of the EEC have not proved justified:

(a) The claims that the functioning of a common market in western Europe would jeopardize the trade interests of third countries have not been confined by actual developments. Although the percentage share of intra-EEC trade in the total foreign trade of the EEC countries has kept steadily increasing since the establishment of the Common Market, the high rates of economic growth experienced by the EEC countries have been a stronger factor, so that between 1957 and 1961 the EEC imports from third countries increased by almost a fifth, those of primary commodities by 6% and those of manufactured goods by 53%.82

(b) The establishment of the EEC has resulted in an expansion of the outlet which the member states represent for the developing countries: in 1957, the EEC countries bought 22.1% of all the exports from the developing countries, in 1961, 23.1% and in the first half of 1963, 24.1%; during the same period, the relative importance of the EFTA countries as outlets for the developing countries' exports remained unchanged, 15.5%, while the share of North America declined from 25% in 1957 to 22.5% in 1961 and 21.3% in the first half of 1963.83

(c) The allegations that the association of certain African countries with the EEC would disrupt the trade of African countries in general have been thoroughly examined on the basis of empirical data at the first two sessions of the UN Economic Commission for Africa's Standing Committee on Trade, in 1962 and 1963. During its first session, this body noticed that the trade of the EEC with African countries which are not associated with it had not suffered and that there was no reason to believe that the association of some African countries with the EEC would jeopardize the expansion of their trade with other African countries which are not associated with it.84 At the second session, representatives of countries associated with the EEC stressed that this association in no way precluded them from forming part of an African common market. Moreover, it was generally agreed that this is an issue which should not be disposed of on abstract assumptions but should be examined as each particular problem or obstacle is encountered.85

(d) Equally unfounded is the pessimism currently expressed in certain quarters as to the efficiency of the community, especially the affirmation that the present prosperity of the EEC countries has nothing to do with the establishment of a common market.

7. While it is important to discard attacks against the new groupings of advanced countries, these groupings cannot, without serious qualifications, be considered as the precursors of a new world trade pattern. Indeed, they were not established in order to reform international trade but mainly to further the general striving for the unification of Europe. This is especially true of the EEC. However, whatever be the basic objective of these groupings, their impact on international trade is considerable. From this point of view, one of the outstanding features of the groupings of advanced countries is that they secure for wealthy industrial countries regular access to the markets of other wealthy industrial countries. In so far as this feature prevails, they are rather symptoms of the uneasy functioning of the world market. There are however good reasons to believe that groupings like the EFTA and EEC will go beyond the initial structure. Logically

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82 United Nations, World Economic Survey 1962, Tables 4-16.
84 UN-ECA, Report of the First Session of the Standing Committee on Trade (E/CN.14/174), para 18 and 19.
85 UN-ECA, Report of the Second Session of the Standing Committee on Trade (E/CN.14/253), para 23.

the major trade nations participating in those groupings should increasingly be induced, by the very dynamics of the new situation, to begin more systematically adapting their foreign trade to the emerging new pattern of world production. In fact, some recent events clearly point in this direction:

(a) In the United Kingdom there has been mounting insistence on the need to limit the concentration of foreign trade on markets in the industrial countries and to rebuild the Commonwealth trade in such a way as to further the progress of the under-developed countries and their integration into the world market. Particularly encouraging is the growing number of authoritative British voices which emphasize that the change in the terms of trade in the United Kingdom’s favour is not an unmixed blessing since in the long run it may impoverish potential customers. While these new ideas are emerging in many different quarters, the British trade unions should be given particular credit for having advocated the trade interests of the developing nations more resolutely than any other section of British society. The report by the General Council approved at the annual Trades Union Congress in September 1963, has stressed the obligation of the industrial countries, including Great Britain, “to stabilize at a higher level the prices we pay for the raw materials and foodstuffs produced by the under-developed countries” and “to open our markets much wider to their manufactured products”. In a memorandum to the International Confederation of Free Trade Unions on the tasks of the United Nations Conference on Trade and Development, the Trades Union Congress has emphasized that the British Government should assert the need for the promotion of active policies to help the under-developed primary producing countries, “even though the pursuit of such policies would be expensive in the short run in the terms of higher prices for certain products, and would involve a reallocation of domestic resources”. Sweden is another member of the EFTA which shows a keen interest in the expansion of economic relations with the developing countries and is even designing measures to adapt its own industrial structure in order to facilitate imports of manufactured goods from those countries. The Swedish trade unions have considerably contributed to this new orientation. They have emphasized that the industrial countries must “adopt a trade policy which is more favourably disposed to imports”, and that “it is desirable to ease the transition to these new conditions now since the economies of the industrial countries will have to adjust in any event on the basis of EEC and EFTA”. They endorsed the proposal—which in the meantime has been adopted—to set up a special institute for the purpose of supplying medium or long-term credits through borrowing on the capital market. They also have been successful in urging the official Export Credits Board, which guarantees credits relating to exports to the developing countries, to become instrumental in supporting those countries, instead of proceeding on a purely commercial basis.

(c) Similar tendencies have manifested themselves in the new convention of the EEC with the associated countries, in the EEC decision that aid to African countries will no longer be tied to their buying from European countries, in the arrangements reached in spring 1963, with the Inter-American Development Bank for the purpose of considerably increasing the long-term finance supplied by western Europe to Latin America, etc.

8. The constructive potential of such measures would of course be radically strengthened if they were extended in such a way as to offer to all developing countries equal opportunities to benefit from them. This, of course, is not a matter of one radical decision, but could only be achieved through a lengthy, and of necessity gradual, process. The proposal concerning the organization of markets for primary commodities is an encouraging sign of a growing leaning toward universality.

9. The main key to a creative reorganization of international trade is the channelling of the flow of goods which are in excess in the traditional markets of the industrial countries to those areas where they are needed to improve the living standards and are not produced locally in sufficient quantity. An ever greater proportion of exports, both of the industrial and of the developing countries, must be diverted from the old to the potential new markets in the developing countries; the developing countries must be given adequate facilities to finance these rapidly growing imports. Such re-organization of world trade is a tremendous task. It can only be achieved:

(a) by further expanding the imports of developing countries so as to ensure both a speedy social and economic development of these countries and full utilization of the productive potential of the exporting countries; by devising new ways of financing these imports; by promoting in the developing countries suitable policies of social redistribution of income with a view to raising the levels of popular consumption;

(b) by adopting policies which will bring the economic pursuits of the advanced countries into line with the need of the developing countries to increase the exports of the manufactures, with a view to improving economic conditions in both the developing and developed nations and of establishing a mutually beneficial pattern of trade; by recognizing that in order to achieve a balanced growth of agriculture and industry, and of the product for the home market and for exports, the developing countries must be granted preferential treatments in the case of certain of their industrial exports; by promoting trade among the developing countries at the same time as providing them with broader and ever-increasing outlets in the advanced countries;

87 British Trades Union Congress, World Trade and the International Monetary System, Annex VI.
(c) by considerably raising the purchasing power of primary commodities over manufactured goods;
(d) by combining where appropriate the measures adopted in the field of trade with extensive technical co-operation between the advanced and the developing countries, as well as among the developing countries, in such matters as the application of science and technology, export promotion, the development of national transport systems, vocational training, employment policies, industrial relations, labour standards, urban development, etc.

VI. MEETING THE IMPORT NEEDS OF THE DEVELOPING COUNTRIES

10. The extremely low level of the imports of the developing countries is the most important single bottleneck in international trade. This occurs because of the insufficient purchasing power of the developing countries. These countries are experiencing growing balance-of-payments difficulties although their imports are practically reduced to the most badly needed investment goods and foodstuffs. Even these priority imports by no means reflect the existing needs. This can be seen from the slow pace of development and from the fact that throughout the world there are about 300 to 500 million people who suffer from hunger, and another thousand million who are malnourished.

11. In order to achieve a self-sustaining growth in the foreseeable future, the developing countries would have to import a considerably bigger volume of much more varied goods.

(a) One of the most powerful drags on these countries’ economic take-off is their social structure, which is not only obsolete but also disintegrated. A viable society cannot be achieved without the creation and expansion of domestic markets which, at the stage at present reached by most of the nations concerned, must be supplied to a large extent by imported goods such as textiles, clothing, footwear, kitchen and household utensils, simple tools and appliances, agricultural implements, etc.

(b) Imports are one of the most effective means of inducing economic, and especially industrial, development. They “reconnoitre and map out” new demand and new markets and thus stimulate the creation of domestic production. This is particularly important because of the necessity to induce the numerous talented entrepreneurial elements which pursue more or less parasitic activities to devote their energies to development ventures. True enough, in this process of establishing the conditions and incentives for local industries, foreign producers are often eliminated in due course of time by domestic competitors from the markets that they have created. But, at the same time, industrialization creates new import needs. In some cases, the foundation of domestic plants has led to such an expansion in the demand for their product that the import of this product has increased. In other cases, where the import-substituting effect prevails, an increase in demand occurs for other allied products; the foreign suppliers then merely switch their offer to these allied products, instead of withdrawing.

12. Full exploitation of the stimulating effect of imports on social and economic development by no means precludes, and indeed under certain conditions requires, the sheltering of infant industries against international competition. When full employment does not exist and when the capital and labour previously engaged in the import-competing production cannot shift into other industries, indiscriminate imports can do more harm then good. This is especially the case in the developing economies where the workers who might be displaced by competitive imports are already close to the subsistence wage level. Unless the entrepreneurs are receiving monopoly profits that can be reduced, an increase in imports may lead to an irremediable dislocation of the manpower in the import-competing sector. Indeed, economic loss through unemployment might then be greater than the gain from trade. However, a purposeful trade policy of the importing country can channel the inflow of foreign supplies wherever they are needed to create new markets.

13. The disparity between the needs and earnings of the developing nations is such that their export proceeds, even if raised to the maximum amount imaginable under the present conditions, would still fall considerably short of meeting even the most urgent import needs. While it is important to use every possibility to increase the export earnings of these nations, the problem of their development cannot be solved unless new means of meeting their import needs are devised. This is the raison d’être of economic aid. However, the record of the past fifteen years or so shows that the addition of foreign aid to the export earnings is not enough. Though further increase in aid is imperative, the necessity to reform trade persists. The more so since the private investment of the advanced nations in the under-developed areas has precipitously declined. But the imaginative approach which had brought about the recourse to aid has thus far not prevailed in the sphere of trade. All the efforts to foster the development of these areas by means of trade have, regrettably, been marked by the conservative conception which reduces the scope of the task to the single aspect of export earnings. This has been the main cause of the surprisingly slow progress achieved in this field by GATT which in other respects has proved so efficient. Unfortunately, the same conservative conception has again prevailed in the preparation of the United Nations Conference on Trade and Development. Initially, it is true, the tasks to be accomplished by this conference were defined in such a way as to ensure that the whole range of problems concerning world trade in connection with the need for an accelerated progress of the developing countries would be tackled. However, in the course of the preparatory work thus far accomplished, the scope of the Conference has been gradually reduced. The problems of development have been given little

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42 Ibid, p. 122.
43 Charles P. Kindleberger, Foreign Trade and the National Economy, pp. 103-104.
largely due to the increase in official aid, but in 1962
capital—are inadequate to meet the needs of the
imports—export proceeds, aid, import of private
consideration, despite the existing disagreements
412
private investment funds to the developing countries,
the poor countries. The United States exports on an
total income abroad, and only about a third of that in
mainly to the under-developed regions. At present,
tensions with a common source and common features.
Undoubtedly, private capital could
the absolute amount of net capital movements de­
visible imports into the developing countries was
developing countries, comparative statistics indicate
more, the complex and many-sided problem of the
regard the very concept of development. Further­
43
export credits extended from the advanced countries
— the industries of the advanced countries should
contract of direct investment. Between 1900
export credits could quickly become one of
the important channels of the capital inflow needed for
The Governments, the financial institutions and
the industries of the advanced countries should
endeavour to improve the export credit system so as to
render it more favourable to the developing lands.
The aim should be to strengthen the power of this
system to increase effective demand, to limit the
amounts which its application adds to the cost of the
products purchased, and to neutralize as much as
possible the adverse effect on the indebtedness of the
developing countries. This aim could be served
through lengthening the amortization period, delaying
the beginning of repayments, lengthening the guaran­
tee periods, raising the guaranteed portion of the
credit, reducing the rates of interest and the insurance
premiums, extending the range of the risks covered,
exploring the conditions under which repayment in the
national currency of the importing country or in the
form of products of the importing country could be
acceptable, etc. Undoubtedly, these measures alone
would not suffice to reach the aim in question. It is
therefore urgent to devise more radical means.

(b) The expansion and improvement of medium
and especially long-term export credits for the benefit
of the developing areas should be fed by the mobilisa­
tion of new sources. Indeed, one important potential
source of private financing with public endorsement
has so far been little drawn upon: the enormous
unutilized productive potential of western industries,
including both capacities that are actually idle and the
numerous possibilities of increasing production with
but little additional investment. The necessary increase
in imports by the developing countries would be
facilitated by systematic efforts to match their import
needs with these idle capacities of western industries

44 GATT, Trends in International Trade, para. 105.
45 OECD, Development Assistance Efforts and Policies, 1963
46 Robert L. Heilbroner, The Great Assent—The Struggle for
Economic Development in our Time, Harper & Row, New York,
47 United Nations, Export Credits for the Financing of Capital
Goods Requirements of Developing Countries (E/C.5/64).
48 See for example Federation of British Industries, Overseas
and then to establish the link by means of export credits.

16. Whenever an expansion of exports to the developing countries might contribute to a fuller utilization of the existing capacities, the exporting country could itself create the medium and long-term credits needed by the importing countries:

(a) If the exporting industries are labour intensive or financially weak, these credits should be extended by governments in the framework of their domestic programme of full employment and growth.

(b) Capital intensive and financially sound industries have no difficulties in obtaining needed credit to expand production; with governmental guarantees, they could convert such credit into export credits on soft terms. To the extent of the increased returns of a given business per unit of its output, which would result from the utilization of hitherto idle capacity, the credits initially extended to the importing under-developed countries could eventually be written off, partly or entirely.

17. The progressive lengthening of the amortization period of export credits, as well as some minor changes in their technical handling, have already resulted in an increasing similarity between private export credits and development credits financed by official institutions. The proposed further expansion and diversification of export credits would further assimilate them to development credits, to such an extent that the industries of the advanced countries could in certain cases consider it appropriate to engage in direct aid programmes. This could be an important step toward a more economical handling of aid. Indeed, one factor diminishing the effectiveness of foreign aid is the present division of functions under which aid is handled exclusively by governments while trade is conducted by private firms; the two operations are never fully harmonized. Furthermore, through the contribution of the individual industries, the total amount of aid could be increased; the participation of industries would also be by no means be considered as an excuse for reducing official aid. In order to enable western industries to take initiatives along these lines, more information about the potentials existing in the developing countries is urgently needed. Problems of financing trade cannot possibly be coped with on the basis of aggregate figures, such as are usually released in international publications. These aggregates must be broken down according to specific uses, so as to show a detailed picture of various potential markets in the developing countries. With such comprehensive information at hand, western industries would be able to work out specific industry-by-industry programmes covering all aspects of their possible operation in the field, i.e., imports from the developing countries and exports to those countries, credits, foreign investment, and aid.

18. Arrangements giving private capital too large a role in the development of the under-developed countries are dangerous, from the economic and social as well as from the political point of view. The attitude of foreign private firms operating in the developing countries, especially that of oil companies, has repeatedly been strongly criticized. The record of the foreign companies which control marketing of fruit is no better. It has been suggested now and again that foreign private capital operating in the developing countries should bring about a new philosophy to guide its activities. The need for such a change in attitude is obvious. But there is little hope that this will ever occur spontaneously, especially if the role of foreign private capital in the developing countries increases. The new outlook can only emerge if a suitable procedure is instituted through which pressures could be brought to bear on private capital:

(a) In this connexion it is highly important that there are two sides in the industry of all democratic nations: management and labour. Bona fide trade unions are deeply involved in the endeavour to help overcome under-development. A close co-operation has developed between the free trade unions organizing the workers of the advanced as well as of the developing nations. Furthermore, bona fide trade unions of the advanced countries are vitally interested in the absorption of visible or hidden unemployment which exists in many of these countries; the full utilization of the existing industrial potential for the sake of meeting the import needs of the developing countries represents an avenue to full employment. Labour should therefore play an active part in drafting the specific industry-by-industry programmes as proposed above.

(b) The participation of labour alone would not be enough to impose a change in attitude upon the foreign private capital operating in the developing countries. Important responsibilities should also be assumed by the governments of the advanced countries as well as by international institutions.

19. The task of the governments should be to co-ordinate and to set up suitable machinery to consider, and act promptly on, such programmes. More particularly, governments should:

(a) Encourage through fiscal legislation and other appropriate means a fuller utilization of the existing productive capacities as well as the participation of domestic industries in foreign aid;

(b) Devise incentives for investment, credit and other expenditure which could create new demand and new markets;

(c) Discourage those investments which result in increased surpluses;

(d) Devise a suitable institutional set up and rules of procedure for a constructive and responsible participation of representative trade unions in the elaboration of the industry-by-industry programmes.

20. Very important in this field should be the role of the international lending agencies. It is necessary not only to prevent a race among the producers of the various countries for the markets in the developing areas, with the possible consequence of unwise loans, but also to help to co-ordinate the development plans of these areas. It is necessary for this purpose to endow the international lending agencies with sufficient funds and the right to make long-term credits. Due attention should be paid in this connexion to the proposal...
endorsed by the secretariat of the United Nations Economic Commission for Europe for the establishment of an international export credit insurance fund for the developing countries, which should be financed from the resources of the public guarantee funds in individual countries and act as a co-ordinating centre helping to improve credit terms for the developing countries and thereby to increase exports to these countries, to insure exporters who are unable to obtain guarantees in their own countries but are in a position to export more of their products, and to improve the position of certain exporters, particularly the smaller industrial countries in Europe.\(^{50}\)

VII. RAISING INTERNATIONAL LIQUIDITY

21. A broad obstacle to progress towards a more liberal trade and aid policy is to be found in many developed countries' concern about their balance of payments. In some cases, trade unions in developed countries have had reservations about the pace and degree of trade liberalization because they have been apprehensive about the deflationary economic policies that governments might feel compelled to use if the freeing of trade restricted their ability to control the balance of payments through external commercial policy. This apprehension is not unfounded. While international trade can promote high levels of economic activity and employment, it can also, if major payments imbalances develop, inhibit the domestic economic progress of individual nations by forcing them to take deflationary measures. The importance of this issue is illustrated by two sets of facts. It is a matter of history that a major reason for imposing restrictions on international trade in the inter-war period was each country's fear of the consequences for the domestic economy of any possible adverse development in its external payments. It is equally a matter of history that, although there were valid grounds for these fears, the protectionist measures which were adopted were in the event self-defeating. More recently this issue has arisen in a somewhat different way. While the growth in world trade and payments has been very rapid, the facilities for the finance of these transactions have not shown a similar increase.

22. While there is no conclusive evidence for the contention that the size of world monetary reserves must increase proportionately with world trade, there is no denying the fact that world reserves must grow to some extent to sustain the growth in trade. As the world's supply of monetary gold probably rose at an annual average rate of 1.3 per cent in 1953-1962, it is evident that the pace of growth of trade cannot be sustained from this source alone. Irrespective of the way in which adequacy of monetary reserves might be measured, the difference between the increase in gold supply and the desired total increase in international liquidity has to be bridged in some way. In the post-war years this additional liquidity has been provided through increases in dollar, and to a lesser extent, in sterling claims. If it is agreed that the liabilities of the key currency countries should not be increased in further years, or that indeed they should be reduced, there can be little doubt that a generally recognized scarcity of reserves would become immediately apparent.

23. The most desirable—and indeed in the long run the only practical—way of solving international payment difficulties is through the centralization of monetary reserves in the hands of a body which is also authorized to create credit as and when required for the financing of the growing volume of international transactions. To this end, several schemes have been proposed in recent years. An important feature of any such development would be that in addition to its function of generally facilitating trade and financial transactions, the central monetary body would be able to engage in the provision of direct and indirect assistance to developing countries.

24. A substantial scope for attack on the general obstacles to international trade lies in this field. Action on international liquidity is a necessary factor both in solving the problems of the developing countries and in raising the living standards in the developed countries. Governments should urgently engage in the task of radically amending the world's monetary system, partly for broader reasons and partly in an endeavour to underpin the work of the United Nations Conference on Trade and Development.

VIII. ADAPTATION OF THE ECONOMIC STRUCTURE OF THE ADVANCED COUNTRIES AND THE EXPANSION OF EXPORTS FROM THE DEVELOPING COUNTRIES

25. Assistance to the developing countries cannot reach its aims unless it is integrated into the over-all economic policy of the advanced countries. It has been more or less generally agreed that successful development policies in the developing countries require a continuous adaptation of the economy of advanced countries to the extent necessary to increase imports of manufactured and semi-manufactured goods as their production by the developing nations keeps growing. At the same time, the success of the new combinations of advanced countries, such as EFTA and EEC, shows that these countries are able to adjust their economic policies, internal as well as external, in order to derive the maximum benefit from international co-operation. Nevertheless, the willingness to proceed with adjustments needed for the sake of an increased co-operation with the developing countries has been much less obvious. Even the progress in tariffs of processed goods as compared with crude produce has been maintained. Many industrial countries, including the United States, Britain, the EEC countries and Japan, charge much heavier duties on cotton yarn than raw cotton, on vegetable oils than oilseeds, nuts and kernels, etc., notwithstanding the economic waste involved (processing in many cases considerably reduces the volume or the weight of the produce and, by the same token, the transport freight). Policy favouring development is still viewed primarily as a humanitarian venture. On the international scale, redistribution of income may be as beneficial to the

\(^{50}\) Some Problems of World Trade in Machinery and Equipment para. 21 (E/CONF. 46/41).
prosperity of all as on the national or regional level. But this principle has so far been accepted in theory only.

26. Conservative conceptions, which are deeply ingrained in policies pertaining to foreign trade, do of course favour such an asymmetry in the approach to co-operation with advanced and the developing countries, but they cannot explain this phenomenon entirely. Objective circumstances in fact play a much more decisive role. Adjustment of the advanced countries to the rising competition of manufactured and semi-manufactured goods is less easy as regards the exports of developing countries than those of other advanced countries.

27. Increased imports from one advanced country to another usually intensify competition in goods which, in most advanced countries, are produced at a high degree of efficiency. The normal reaction of the domestic industries affected is an additional effort to raise their own, already high, productivity. An internal shift of resources occurs only if and when this additional effort proves insufficient to allow the industry in question to live up to the increased competition from abroad. In the case of an expansion of imports from the developing countries, the sequence of events is frequently inverted. As Professor Raymond Vernon pointed out, these imports most frequently compete with labour-intensive industries and affect regions inside the importing country which are, relatively speaking, areas of unemployment and low wages. In other words, the developing countries sometimes find themselves in competition with the poorest, least mobile, least adaptable regions of the advanced countries. The first reaction of the domestic industry then tends to be the closing down of the plants most severely stricken and the dismissal of their workers, which in labour-intensive industries creates a particular hardship. Only afterwards, if the pressure of the competition from abroad is not relieved, comes the effort to step up efficiency by technological improvements. As far as it aims at transforming a labour-intensive industry into a capital-intensive one, this second reaction may impose additional hardship upon the workers already affected by previous dismissals. The case is graphically illustrated by recent developments in the British cotton industry. Between 1959 and 1963, 43,540 workers lost their jobs in the process of a radical adaptation of this industry to the gradual loss of export markets and the increasing imports from the developing countries. This was stimulated by the Cotton Industry Act of 1959 which authorized the Government to provide compensation to plants which would agree to scrap a sufficient amount of their old machinery and would compensate the workers displaced. Since the passing of the Act, about 50 per cent of the spindles in the industry, 36 per cent of doubling spindles and 40 per cent of looms have been scrapped. The Cotton Industry Act has been mistakenly praised by the United Nations Bureau of General Economic Research as an "important instance of national legislation to provide adjustment assistance". In fact, the scrapping of the machinery and closing down of the plants have continued after the expiration of the Cotton Industry Act: out of the 43,540 workers dismissed, only 36,000 were compensated under the provisions of the Act, while 7,540 lost their jobs without compensation. Since the contraction of the industry did not solve the problem of international competition, the second phase of adjustment is currently in the making: "In order to meet the fierce competition from low wage countries, most of the industrialized countries are devising new methods of production which are tending to change the character of the industry from a highly labour-intensive enterprise to one in which capital requirements play a much more important role." If this second phase proves more successful than the first, and the available information gives serious reasons to believe that this might be so, more workers will be displaced. A third phase might then easily take place during which the newly-equipped textile industry of the advanced countries would make inroads into the internal markets of the developing ones, and the mechanization of production, with its labour displacing effect, would spill over into these countries as well.

28. The whole classical literature on the beneficial effect of increases in imports assumes that there is full employment in the importing country. Yet some advanced countries suffer from actual unemployment, and in some other full employment is rather precarious. In the short run, closer co-operation among advanced countries does not necessarily aggravate this situation. The competition of imports from other industrial countries not only stimulates primarily an advance in the economy and technology, rather than a contraction, of the import-competing industry, but it also integrates this advance into the general expansion which results from the co-operation. Tighter links with the developing countries can produce this beneficial effect upon the advanced countries in the long run only if and when a protracted transfer of income has brought about the economic take-off transforming the developing nations into important customers; the fact that to reach this aim the transfer of income must be protracted follows from what has been said above about the gap between the developing countries' import needs and their export proceeds, even if raised to the maximum possible in the present conditions. In the short run, these links tend to bear fruit in one way only. The adjustment needed in the advanced countries to expand the market for the imports from the developing ones implies therefore a considerable, and often costly, strengthening of the national full-employment policies.

29. While co-operating among themselves, the advanced nations act on the assumption that they will succeed in merging their national economies into an...
integrated structure. If they could reasonably accept a similar assumption in their relationships with the developing countries, they would make the necessary efforts to come to terms with these countries' export drives. Yet, as a rather general rule, the foundation and expansion of export industries in the developing countries is much more determined by these countries' limited availabilities in capital, materials and skills, than by the need to become complementary to the established industries of the advanced countries. In some cases, it might be even held that the foundation directly aims at taking advantage of the vulnerability of depressed industries for which excess capacity has become a persistent feature.

30. Notwithstanding these drawbacks, the economy of the advanced countries can be adapted so as to provide considerable, and steadily increasing, outlets for the industrial products of the developing countries. This, however, can only be achieved if certain basic conditions are observed:

(a) All the inherent drawbacks of the policies furthering the developing nations' exports of manufactures and semi-manufactures to the industrial countries must be fully taken into account when the set of measures aiming at the expansion of outlets in the advanced countries is being designed.

(b) This set of measures cannot be designed and put into effect in isolation but must be integrated into a comprehensive programme of reforms in the field of trade and development.

31. The disruption which the most vulnerable industries and regions of the advanced countries may experience under the impact of a sudden increase in undiversified imports of manufactured goods from the developing countries may be partly offset by governmental adjustment programmes. Very few such programmes have been adopted thus far. Those that have been adopted are defensive measures designed to compensate the affected industries and workers for the losses actually inflicted upon them. But the process is far from simple. The situation could be different if the adjustment could be anticipated:

(a) The gradual shift in the advanced countries to more complicated industries and more elaborate later stages of processing and manufacture, as well as the corresponding transfer of simpler industrial pursuits to the developing countries need not proceed chaotically. This major redistribution of economic activities between domestic production and imports should be an orderly process, and could be considerably accelerated by a deliberate national policy in the industrial countries; the degree of its acceleration would of course vary from industry to industry and even from product to product.

(b) Such a national policy should allocate to imports from the developing countries a definite part of the existing demand for the goods that they wish to export, and a growing part, or even the entirety, of the future increase in demand; in cases where an eventual contraction of the domestic production is desirable, the share of imports in the initial demand should be defined as a regularly increasing volume.
34. In this way, a deliberate creation of markets for the export industries of the developing countries should be substituted for the conquest of the existing markets by these export industries.

35. The adverse effect of increased imports from the developing countries on domestic employment cannot be entirely offset by extending retraining programmes, relocation allowances and similar facilities to workers actually displaced. A more important part of the burden should be relieved by a consistent national policy anticipating the adjustments of the domestic production which are needed in order to create markets for the imports from the developing countries. As far as such a policy succeeds in encouraging workers in the import-competing industries to go over to industries which have good prospects of future expansion, the displacement of labour under the pressure of imports may be considerably reduced in scope, if not entirely eliminated. However, the most powerful means of securing full employment in spite of increasing imports from the developing countries can be found in a purposeful handling of long-term export credits for the sake of meeting the import needs of the developing nations and fully utilizing the productive potential of the advanced ones, as proposed above (Chapter VI, Meeting the import needs of the developing countries). In its incen¬tives on the labour market of the advanced countries, this proposed development policy is, indeed, a full-employment policy, much more effective than the usual devices in this field.

36. The advanced countries could help to remedy the lack of co-ordination between the growth of their own import needs and the growth of the export industries in the developing countries:

(a) Since they would necessarily be selective, the policies of creating markets for the developing countries' exports could exert an indirect influence upon the foundation of new industries and the expansion of the existing ones. If the need for improvement in labour standards were taken into account in the granting of preferential import duties, some of the industries which currently produce exclusively for export, and base their competitiveness on low wages, might be encouraged to make an effort to supply the home market too. A better balance between production for the home market and for export, and a steady improvement in labour standards, would help


57 This has been emphasized in the report of the General Council approved in 1963 by the British Trades Union Congress: "Traditional attitudes to and policies for minimizing the effects of unemployment are likely to become increasingly irrelevant in this new situation, and part at least of the emphasis that has in recent years been laid on increasing production may be shifted to the problem of ensuring adequate consumption. This problem is already evident in the USA. If Britain is to avoid the situation in which the USA now finds itself, and if, in particular, we reject a solution which entails victimizing a substantial minority of the labour force, it is not too early to start planning the disposal of the increasing output that is going to flow from our industries. We have the choice of three ways of dealing with this impending problem: the British people can raise their material living standards in the form of personal consumption or of social expenditure, they can within some limits forgo additional production and activate their leisure or they can give away to less-fortunate people in other countries part of what they produce. These three are not of course mutually exclusive. It is indeed more than likely that in the long run very substantial assistance to the under-developed countries will be a prerequisite for raising the living standards of the British people" (Trades Union Congress, Economic Development and Planning, p. 4).
to eliminate the disruptive influence exerted upon these industries by certain business interests in the importing countries which foster (through direct investment or through big orders) the exports of low-wage products, exclusively for the sake of escaping the higher labour standards established by organized labour and legislation. This kind of operation is being pursued, for example, by the garment manufacturers of several industrial countries who take advantage of the low labour standards in the poor countries and try to lower these standards even further: they constantly shift their sources of supply and play off producers in one country against producers in another country, with the result that the garment workers of the newer producing areas are stricken by unemployment and strong pressures develop to further reduce their wages.58

(b) It is mainly the lack of capital, materials and skills which induces the developing countries to develop export industries that do not correspond to any import needs, actual or potential, of advanced countries. An appropriate remedy might be found in the proposed endeavour of the advanced countries’ industries to use their unutilized productive potential in such a way as to meet the import needs of the developing countries. These industries could considerably help the developing countries to develop industries for whose export good prospects exist in the advanced areas of the world.

37. The proposed national policies of the advanced countries cannot entirely succeed unless they are integrated, together with the development policies of the developing countries, into a comprehensive international programme:

(a) As pointed out in the French memorandum, preferential treatment of imports of selected manufactures and semi-manufactures from the developing countries runs counter to the most-favoured-nation clause which, being one of the fundamental principles of the present system of international trade, cannot be so radically amended by one advanced country acting on its own: the granting of preferential tariffs by the advanced to the developing countries should be subject to multilateral control by an appropriate international body.59

(b) The policy aiming at an expansion of outlets for the developing countries’ manufactures and semi-manufactures can hardly be concerted within the limits of any single industrial country with the policy which serves the purpose of meeting the import needs of the developing countries.

(c) International action is equally necessary to promote the badly needed increase in trade in manufactures among the developing countries; to concert policies adopted to this effect with those fostering the trade between developed and developing countries; to further the development of balanced production-consumption patterns on national or regional levels.

IX. INTERNATIONAL TRADE IN PRIMARY COMMODITIES

38. Multilateral agreements have proved a highly useful, though not the only, means of correcting the well-known defects of the international trade in primary commodities, and especially of bringing the prices closer to equitable and remunerative levels without disrupting the price mechanism. Thus far, however, such agreements have only been applied to a small part of the world trade in primary commodities. It is therefore urgent to adopt appropriate measures to increase the number of commodities covered. At the same time the existing agreements have not managed to bring the world market prices of primary commodities to a really remunerative level, that is to say anywhere near the prices paid to domestic producers in most advanced countries. Unless this is achieved, the earnings of the developing countries derived from the export of primary commodities will not contribute in any significant way to a real development. Every increase in the number of primary commodities covered by multilateral agreements would undoubtedly exert a beneficial effect upon the world prices. However, this would not be enough. What is actually needed is an active policy, on the international scale, of price or income support for the benefit of the producers of primary commodities. Unless the industrial countries are ready to abolish their national support policies, they cannot justify the refusal to apply the same principles in the international field. Indeed, their national support policies should become part and parcel of an agreed international arrangement.

39. Experts have repeatedly reached the conclusion that growth in the international commodity trade will increasingly depend on the expansion of demand in the developing countries. Indeed, this expansion could prove substantial if policies pursued in other fields succeeded in radically raising the quantity and the quality of food available to those countries and to further their industrial development. Accordingly, a major shift of emphasis in the functions of commodity agreements should gradually take place. While the over-all purpose remains “securing long-term equilibrium between the forces of supply and demand” (Havana Charter), the efforts to achieve this equilibrium could concentrate more and more on expanding consumption rather than on curtailing production.

40. As proposed by the British Trades Union Congress, there must be an assessment of present and, so far as possible, of future world requirements of primary commodities. This assessment must take into account internal and external demand patterns, and production possibilities and intentions in each producing country. On this basis, developing countries should give exports of primary commodities an important place in their development programmes. At the same time, developed countries should give a guarantee that they will accept definite amounts of developing countries’ primary products. The developing countries should afterwards negotiate among themselves in order to determine the share of every one in these guaranteed exports and, at the same time, to explore ways and means of expanding the trade in primary commodities among themselves.

58. Two United States trade unions, the International Ladies Garment Workers’ Union and the Amalgamated Clothing Workers of America, have a comprehensive documentation on operations of this kind pursued by United States garment manufacturers.

41. One of the most promising avenues to the inclusion of new commodities into a network of international agreements is the promotion of schemes covering groups of inter-related products rather than single commodities. This has been proposed by United Nations and GATT experts, as well as by free labour and most recently by the Organization of African Unity:

(a) Such a multi-commodity approach could apply either to commodities which are competitive among themselves in their final use (e.g., cereals, meats and dairy products; natural and synthetic rubber), or to commodities the combination of which constitutes the very basis of the economic life of certain countries. In the opinion of the Miners' International Federation, this would be the exception rather than the rule in the case of minerals, because of the many complexities due to the many different grades of ore and metals and also the combinations in which different ores are found.

(b) The multi-commodity approach is preferable both as regards the negotiation procedures and on economic grounds. Negotiation: the conflicting interests of producing and importing countries which tend to dominate negotiations of single commodity agreements could more easily be harmonized inside broader and more complex bargaining units (in which at least some countries would be at the same time producers of one commodity and importers of another). Economic advantages: a scheme covering a group of products could better take into account the effect that arrangements concerning one commodity may have on other commodities, especially those which are competitive with it in their final use. It would also be possible to take into consideration the global effect of every scheme on the situation of countries producing and exporting a series of different commodities.

(c) The technical difficulties implied in the negotiation and operation of such composite schemes could be eased by modifying the composition of the bargaining units as proposed below (participation of direct producers, both management and labour) and by the creation of an international body dealing with primary commodities on a global scale, as also proposed below.

(d) Negotiations covering groups of inter-related commodities could result either in a multi-commodity agreement, or in a set of single-commodity agreements or else in a combination of a multi-commodity agreement with complementary single-commodity agreements dealing with specific problems of each product covered.

(e) The multi-commodity approach would also create appropriate conditions for the adoption of the international buffer-stock principle.

42. Direct producers, both management and labour, should actively participate in the negotiation and the administration of the commodity agreements. As far back as 1943, this was proposed by ILO and ten years later by United Nations experts. These agreements would then not only set up the framework for the expansion of primary commodity trade, but also induce direct producers to make specific economic policy decisions in order to take full advantage of such a framework. This applies not only to business men but also to the labour employed.

(a) If they were allowed to participate fully in international negotiations pertaining to primary commodities, trade unionists could put forward many useful proposals during the process of collective bargaining in their countries, especially where this process covers a broad field of social questions such as unemployment benefits, layoffs, etc.

(b) The participation of labour could, to a certain degree, remedy the awkward situation in which many commodity negotiations take place, i.e., the situtation of inequality between the two sides, the producers usually having a much weaker bargaining power than the importers. In a tripartite body, the workers' group would probably follow the practice which has been firmly established inside the ILO of working out a concerted position among the workers' delegates from all countries. In view of the keen interest of "bona fide" trade unions all over the world in an accelerated development of the developing countries, the workers' group would in many cases strengthen the bargaining power of the primary producing countries.

43. The existing structure of commodity agreements, which puts the wealthy countries almost alone on the importing side, should be transformed. If the perspective of a rapid expansion of demand in the developing countries is to materialize, two or three-tier agreements are needed. While one tier should resemble the present schemes, the second tier should have the developing countries on the importing side. After the effective demand has been met in a way similar to the present arrangements, the remaining production potential should not be sterilized by quotas and other devices. Instead, a second tier of the agreement could then be worked out as a set of measures to utilize the remaining production potential as far as possible to increase the supplies available to the developing countries beyond the quantities for which they can afford to pay; this could be done through barter arrangements, schemes comparable to the existing food aid, single-commodity pools, etc. If some excess potential still remains after such an allocation of all the surpluses which the developing countries can absorb, a third tier might be needed: measures to sterilize this excess production potential in a way comparable to the procedure provided for in the Coffee Agreement.

44. A system of compensation to the primary

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41 ICFTU, Comment concerning the International Tin Agreement submitted to the fourteenth session of ECAFE in 1958, reproduced in: ICFTU Views on the Economic and Social Situation in Asia, New Delhi, 1962, pp. 98-99.
42 Organization of African Unity, document ECOS/12/D/RES/1(0).
44 International Labour Organization, Intergovernmental Commodity Control Agreements, Montreal, 1943, pp. XI-XIII.
exporting countries for losses due to the price fluctuations is urgently needed. This has been broadly recognized. Nevertheless, none of the systems so far devised by the experts of the United Nations, of the Organization of American States and of the International Monetary Fund has met with general agreement. All these systems are unsatisfactory in that they either guarantee automatic compensation to countries which incur losses through their own fault—by failing to make the necessary effort to diversify their economy and exports, by accepting excessively risky contracts, etc.—or impose upon the country that finds in difficulties the burden of the often difficult proof that these difficulties are not of its own making. Moreover, with the sole exception of the provisions adopted to this effect by the International Monetary Fund, all the schemes proposed seem excessively complicated and rigid. It is therefore highly gratifying that Professor J. B. Meade has submitted to the Conference on Trade and Development a new project which has the four-fold advantage of being extremely simple, flexible, empirically founded, and compatible with all existing international commodity arrangements:

(a) Professor Meade proposes an agreement between the countries exporting and importing a given commodity or group of commodities. The object of the agreement is a sliding scale whereby if the world price falls further and further below a certain figure (the "standard price") the importing countries will pay an increasing sum of money to the exporting ones, and if the world price rises further and further above a certain figure the exporting countries will pay an increasing sum of money to the importing ones.

(b) The agreement may be concluded between one exporting and one importing country, between a group of exporters and importers, or between all exporters and importers. The sliding scale may be defined in such a way as to ensure either full or only partial compensation for the variation in the world price. The "standard price" may be fixed either in such a way that the agreement will limit itself to offsetting the effects of fluctuations in price on the balances of payments and national incomes. Or the "normal price" may be fixed at a level securing for the exporting countries the grant of continuous financial aid from the importing countries.

(c) The scheme has not been designed on a purely academic basis but derived from the actual experience of the first wheat agreement after the Second World War, the provisions of which it has greatly simplified.

(d) The scheme is fully compatible with all existing types of commodity agreement, such as the buffer stock or restriction schemes. Moreover, its application could further the conclusion of full-scale international agreements.

X. IMPORTANCE OF TRANSPORT

45. In order to cope effectively with the movement of goods arising out of trade expansion, attention will have to be given to the setting up of efficient transport systems in the developing countries. Naturally there can be no single pattern for these as each country will develop the system most suited to its needs. But whatever system any one country chooses, if the best is to be obtained from what is available, attention will have to be given to co-ordinating the different forms of transport within a country and linking it with the existing or expected needs of the developing economy. The various forms of transport within a country should complement, and not fight, each other. Some competition between them may or may not be advantageous but outright competition will be, in the end, only harmful to the transport industry and to the developing economy. In a word, the transport systems should be planned.

46. At the same time as the transport system in any country is developing, due regard should be paid to transport developments in the surrounding and adjoining countries so that goods being moved from one country to another, perhaps across the territory of other countries, shall, once loaded on to the conveying vehicle, not need to be handled again until they reach their destination. This will require cooperation between the countries concerned, and of course, some standardization of transport equipment. This is particularly necessary in the case of railway development and to a lesser extent in road transport, inland navigation, civil aviation, etc.

47. Shipping services will increasingly be involved in any expanding economy. In this connexion reference was already made during the preparatory work for the Conference on Trade and Development to the possibility of the developing countries being given assistance to develop their own merchant marines, not only for carrying their goods but to help to expand their income from invisible exports and also to save foreign currency. If new merchant marines were actually to be brought into existence, due attention would have to be paid to certain important matters to make these marines capable of serving their purpose: the sort of link required between the ship and the State, the acceptance and implementation of ILO conventions and recommendations, etc.

48. Attention will have to be given to the development of adequate ports and port facilities. These facilities will include modern equipment but not necessarily fully mechanical equipment. In developing countries it would be surely wrong to use the latest labour-saving loading and unloading machinery and thus diminish employment opportunities. On the other hand, mechanical aids in connexion with this work should be provided in order to eliminate the need for port workers to manhandle excessive loads.

49. The importance of road transport for the development of any economy need not be described in detail. Suffice to say that, if road transport is to play its full part in helping to develop the economy, it must be provided with the means to do so, in the shape of good and sufficient roads strong enough to bear the heavy weights today carried by road transport. Those who are engaged in the road transport industry should enjoy all the conditions which have been found to be necessary to an efficient industry; not the least

46. *International Commodity Agreements* (see Vol. III of this series).
of these, in the interest of safety, is the strict limitation of driving hours.

50. The suggestion has been made that civil aviation should be included in the study to be made of shipping. This subject will have to be handled extremely carefully as very few of the world's airlines operate at a profit and most operate at a loss. There is more than an even chance that civil aviation in developing countries would worsen not improve their economic position.

51. Again, if the best is to be obtained from any transport system it must be operated by efficient personnel. This involves the setting up of standards of qualifications required of the individuals and this in turn requires the development of adequate training schemes and the setting up of machinery to test the competency of those who have been through the training schemes. In this latter field it may be necessary to provide technical assistance, with the participation of the trade union movement.

XI. INSTITUTIONAL ARRANGEMENTS

52. A suitable international machinery will be needed to spell out the proposed policies, to ensure their implementation, and to provide a forum for the negotiations necessary for this purpose. The structure of this machinery should be such as to ensure an expert and pragmatic approach to every problem, and to permit the closest possible co-operation with each of the participating countries and industries. It therefore seems imperative to adopt decentralization and plurality as the fundamental organizing principles. Moreover, it does not seem necessary to design this machinery in such a way as to cover fully, from the very beginning, each aspect of trade and development. To start with, it might be enough to establish the structures needed to deal with the trade in industrial products on the one hand and in primary commodities on the other. Whatever additional branches might eventually appear necessary, they can be easily created by granting an autonomous status to, and articulating the structure of, the corresponding divisions of the initial machinery.

53. The international machinery which would deal with the problems of trade in manufactures and semi-manufactures should be established by the countries, both developing and advanced, that are major importers and exporters of industrial products to and from the developing countries, and that are ready to accept definite commitments in the framework of the proposed programme.

(a) The representation on this body should be proportionate to the share of every participant in the flow of trade in question.

(b) The body thus established should consist of a general organ grouping all the participants and an autonomous organ of all the participating underdeveloped countries. The first would discuss and define general policies, while the second would have to pool the resources and markets made available and to allocate a fair share in these resources and these outlets to every single participant.

(c) This assembly of the developing countries might delegate a more or less considerable part of its attributions to groups established on a regional basis.

(d) The machinery should consist of several functional committees acting as autonomous bodies in order to deal with problems pertaining to specific kinds of industrial products: processed food, processed materials, consumer goods, consumer durables, agricultural implements, machinery and equipment, etc. Each of these functional groups might be subdivided according to the two ways of trade between the advanced and the developing countries.

(e) Since a highly important role must be played by the industry both of the developing and the advanced countries in the elaboration and application of this programme, and since the impact upon the prosperity of industry and the welfare of workers would be enormous, it is vital that industry, both management and labour, be given an opportunity to participate in this machinery. The machinery should therefore have a tripartite structure similar to that of the International Labour Organization where every member State is represented in the general conference by two governmental delegates, one employers' delegate and one delegate of the workers, and in every industrial committee by two delegates of each. Unless such a tripartite structure is adopted, there is little hope of securing the full participation of employers and of workers; there are even reasons to believe that the application of the proposed programme may face a serious resistance from many quarters.

54. In order to organize the world commodity markets appropriately, and to co-ordinate this venture with the policies pertaining to the developing countries' trade in industrial products, an international policymaking body should be established by major importers and exporters. A body of this kind was provided for by the Havana Charter. Another step in this direction was the decision adopted in March 1947, by ECOSOC to create the Interim Co-ordinating Committee for International Commodity Arrangements (ICCICA) which is certainly an extremely useful organ, but, being an expert body, cannot perform policy-making functions. The usefulness of such an organ clearly appeared during the Korean War when the International Materials Conference (IMC) was established in Washington on the initiative of the United States, the United Kingdom and France, with the participation of 25 other countries, in order to deal with acute shortages and to check speculative price increases. In the present situation, such a body would deal mainly with surpluses and check the decline in prices:

(a) The participating countries should be represented in proportion to the share of each in world commodity trade.

(b) This machinery should become a common secretariat of the councils administering the existing commodity agreements and should also be in charge of the commodity study groups. It should consist of a general organ, of a series of standing committees dealing with groups of interrelated commodities, of the study groups and of the commodity councils. Each of these organs would keep its autonomy so that the relations among them would mainly consist in cooperation.
(c) The main functions of the general organ would be: to review periodically the progress achieved; to examine the positions taken by, and the recommendations of, the standing committees, the study groups and the commodity councils, and, as far as possible, to promote consistency and effectiveness of action; to study those aspects of the international trade in primary commodities which pertain to more than one commodity; to stimulate the standing commodity committees, the study groups and the commodity councils to pay attention to the various aspects of the commodity trade which thus far have not been duly taken into account, particularly to the whole series of transactions which take place between the stage of production and the stage of final use; to keep under review general economic trends affecting the supply of and demand for essential primary commodities, and to make recommendations to governments thereon, both as regards matters that might call for consultation by governments directly, and those that might call for action on the part of the international machinery itself.

(d) Though operating as an autonomous body, the general organ would have a large, if not always preponderant, influence in the conclusions of the standing committees and the study groups, as well as in the decisions of the commodity councils.

(e) The following functions would be discharged by the various organs of the machinery: co-ordination of international commodity agreements and bilateral preferential agreements; price intervention; organization of supplies of scarce commodities; allocation of surpluses; arrangements concerning the “invisibles”; compensatory financing; long-term policies; cooperation and negotiation with other international, regional and national bodies concerned.

(f) The machinery would have the same tripartite structure as the ILO and the proposed international machinery for the developing countries' trade in manufactures and semi-manufactures.

55. In a field where several institutions, such as GATT, FAO, IMF, ILO and the commodity councils, are already doing very useful work, the setting up of new institutions, as well as attempts to supersede or even liquidate the existing ones, should be avoided. The emergence of new institutions is likely to result in unsound competition and overlapping rather than in a strengthening of the international action in this field. It is therefore highly advisable that the proposed machinery be established, as far as possible, within the framework of the existing international bodies, through appropriate amendments of their statutes and modifications of their activities, and especially as a joint venture of these various bodies. In view of the importance of the problems pertaining to labour, the international free trade union movement insists on the full participation of the ILO.
STATEMENT SUBMITTED BY THE INTERNATIONAL CHAMBER OF COMMERCE*

INTERNATIONAL TRADE AND ECONOMIC DEVELOPMENT

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STATEMENTS OF GENERAL PRINCIPLES

1. Raising the standards of living of the developing countries of the world represents one of the major concerns of our time. All countries, whatever their degree of development, or economic and social structure, aspire to improve their economic situation and to increase the personal well-being of their citizens. Effective means of achieving progress in these important areas for all nations, but particularly for the developing countries, are (a) continuous expansion of domestic and international trade and investment; (b) more intensive development of resources and industry; and (c) increased diversification of national economies.

2. Through the recognition of these aspirations and the search for effective methods of improving existing circumstances, the forthcoming United Nations Conference on Trade and Development will attract the attention of world public opinion and at the same time will give rise to considerable expectation. The International Chamber of Commerce, which attaches great importance to its consultative status with the United Nations, extends its support to the general aim of the Conference, that is, economic development through expanded international trade. It is to be hoped that this Conference will produce agreement between the various groups of countries on a practical and realistic programme of action designed to promote world economic growth with particular emphasis given to the factors which will promote as well as those that will impede economic advancement of the developing nations. However, caution must be exercised so as to promote integration within the comity of nations, rather than division of the world into two groups of countries, developed and developing. Any action programme must recognize the marked differences between the individual countries in level of development, economic structure and political and social conditions.

3. The discussions held within the Preparatory Committee for the Conference have emphasized the differences of opinion existing between the groups of countries represented there. Should these differences persist, the Conference may be handicapped in developing solutions to the significant economic and financial problems included in the agenda. If a realistic approach is taken by the various groups at the Conference, the ICC considers that a useful strengthening of the economic, political and cultural links between the developed and developing countries can take place. On the other hand, if the Conference should break down into a one-sided series of demands on the part of either “developed” or “developing” nations, the net result could militate against general economic growth and, more specifically, could limit opportunity for the economic advancement of the developing countries.

4. The ICC, whose membership includes business leaders from both developed and developing countries, believes that the greatest single achievement that could result from the United Nations Conference on Trade and Development would be the mutual recognition by all participants of the basic responsibilities that each

* The Secretary-General of the Conference was requested by the International Chamber of Commerce (ICC), a non-governmental organization in category A consultative status, that this statement be brought to the attention of the Conference.
country must accept if it is to make its contribution to and share equitably in the continued expansion of the world economy. The expansion of trade in general, and in particular between developing and developed nations, offers one of the most productive means of meeting the pressures that result from expanding populations and rising economic expectations.

5. All countries should recognize the desirability of reducing and, where feasible, eliminating measures unfavourably influencing the currency receipts of the countries now facing the problems of economic development, particularly those countries dependent on export receipts from primary products. Removal of the various obstacles to trade, whatever their form, would do much to create the opportunity for self-sustained economic growth. The ICC realizes that, if this is to be done, great effort and certain sacrifices must and should be made by the industrialized countries.

6. The ICC has considered whether there is any likelihood of obtaining, either on the markets of the industrial countries or on those of other developing countries, a system of preferential tariffs for products exported by the developing countries. It is not convinced that the acceptance of a general exception to the most-favoured-nation clause would be either advisable or negotiable. With respect to trade between developed and developing countries, the ICC considers that a general exception to the most-favoured-nation clause would have little effect on the expansion of the export trade in manufactured products of the developing countries. A system of specific exceptions limited in time and volume appears more likely to produce rapid and tangible results for certain manufactured products which the developing countries could sell at prices prevailing in the world markets. Trade between developing countries themselves, particularly as regards manufactured products, would not expand through preferential arrangements but would grow substantially if these countries agreed to set up regional groupings within which many, if not all, of the products manufactured in the area could circulate without hindrance after a comparatively short transition period.

7. The major effort required to improve the situation of the developing countries must be made by those most directly affected and having the most to gain. The most effective means of achieving this would be to create opportunities for the citizens of those countries to apply their own skills and resources productively. Often this will require the attraction of private investments from abroad to supplement inadequate local resources. Internal monetary and fiscal restraint and sound administrative policy must be combined with a willingness to create a favourable atmosphere for the growth and expansion of both domestic and foreign private enterprise.

8. The ICC has given careful consideration to the institutional issue. Existing organizations, including the IBRD, the IMF, the OECD and the GATT, have largely contributed to strengthening the position of the developing nations. In the commercial field, the GATT is the organization which has been mainly responsible for the expansion of international trade. Experience has shown that significant development of international trade has always taken place within the framework of international commitments based on mutual advantage. The ICC believes that the creation of new machinery would lead to confusion and serious delay in the fulfilment of the aspirations of the countries participating in the Conference. Perhaps it may be thought worth while to achieve better co-ordination of the work of existing organizations and to stress certain trade problems which have not fallen within their terms of reference. If so, care should be taken that these new activities are of a complementary nature or limited to tasks of co-ordination. They should in no case be allowed to circumscribe the functions of the existing bodies or to weaken their authority.

9. Having defined its general attitude to the aims of the Conference, the ICC submits a number of more detailed comments and suggestions concerning specific problems the Conference will have on its agenda. The ICC hopes that these comments, based on the practical experience of business circles, will make a constructive contribution to the work of the Conference.

COMMENTS ON THE MAIN ISSUES BEFORE THE CONFERENCE

The fundamental imbalance

10. For some years past, many of the developing countries have had to face a growing imbalance between their import requirements and their foreign exchange resources. This is not a new phenomenon and, in the past, countries working to develop and diversify their economies faced sudden temporary increases in their imports without being able to increase their exports at the same rate. These countries got through this difficult period by turning to the capital markets, which provided them with the foreign exchange required to balance their payments until such time as export expansion caught up with their imports. What makes the problem harder to solve today is the speed at which a large number of countries are trying simultaneously to attain a high stage of development. This leads to excessive pressure on the world's limited resources, and unless all governments combine forces to meet this demand methodically and rationally, the chances of rapidly achieving the desired development of the economies of the less-developed regions of the world will be very slight.

11. The ICC is convinced that this degree of development cannot be achieved unless all available means are employed—the expansion of international trade, aid and investment. The developing countries will ultimately readjust their balances of payments by a vigorous expansion of their exports to the industrial countries and the rest of the world. This increase in exports must be achieved both through an increase in sales of traditional products and through the expansion of outlets for industrial products. Nevertheless, the size of the probable deficit in the combined balance of the developing countries (estimated by the United Nations Secretariat at 20,000 million dollars in 1970) is such that it would be rash to expect the deficit to be offset in the next ten or fifteen years by a large-scale increase in exports alone.
12. Without attempting to estimate the total amount of international financial aid in the years to come, the ICC fears that the fiscal burden in most industrial countries has become so heavy that it would be difficult, politically speaking, to increase the present level of aid (6-8,000 million dollars) enough to meet the combined deficit in the balances of payments of the developing countries. It is clear that a gap will remain which can be filled only by private investments.

The role of private investments

13. Such private investments would stimulate the development of domestic savings in the borrowing countries and gradually these savings would lessen the future demand for foreign capital. In their own interest, the governments of the developed countries should encourage the investment of private capital in the developing countries. Certain of them are taking steps in this direction by granting tax reliefs, by underwriting such transactions, by giving guarantees against non-commercial risks, or by other methods. The Conference could make a useful contribution by emphasizing the impact of government policies on the flow of capital. While the developed countries can encourage the flow by granting further facilities or guarantees, there can be no doubt that the main stimulus lies in the creation of a favourable climate for such investments. Countries lacking capital have at their disposal effective means of attracting private investments. They can grant guarantees or tax reliefs and can see that capital does not fight shy of their territories owing to restrictions or manifestations of mistrust or hostility. The ICC has worked out various suggestions in this area which it will gladly communicate to the Conference.¹

14. Since neither the budgetary resources of governments nor private capital are unlimited, countries where the climate for foreign investments is the best are bound to be given priority. In that connexion, the ICC commends to the attention of the Conference the projects under consideration in various international bodies for a convention on the protection of foreign property and for the establishment of a multilateral investment insurance system and of arbitration machinery for investment disputes.

Financial compensation projects

15. Among the other proposals concerning the financing of international trade, the ICC has given careful consideration to methods of financial compensation, with particular reference to the report of the United Nations' Technical Working Party on schemes for the setting up of a development insurance fund (FAD) and of an international fund for the stabilization of export receipts (OAS scheme). The ICC is of the opinion that these schemes can help to solve the problems facing countries producing primary commodities. Moreover, since the governments of these countries will know that they will be entitled to receive financial compensation, they will not be encouraged to modify their production policy and the diversification of their economies will be thereby slowed down. Furthermore, the ICC believes that since 1962 the IMF is in a position to give substantial assistance (quotas, drawing rights) enabling these countries to maintain imports at a level sufficient for their development. This does not preclude producing countries that wish to supplement this aid by mutual assistance or insurance measures from working out new methods with the help of the specialized international bodies. With regard to the financing of structural reforms, the ICC is not convinced of the need to set up any new organizations or funds; these new institutions would merely duplicate the bodies whose task it is to provide financial resources for the economic growth of the less developed regions of the world.

“Invisible” transactions

16. As regards the current account items in the balance of payments of the developing countries, the ICC believes that invisible transactions have an important part to play and that the governments of those countries should so frame their policies as to reduce costs and increase their invisible foreign exchange earnings. It feels, in particular, that, for a number of these countries, earnings from tourism could produce a rapid improvement in exchange resources, provided that the necessary investments could be carried out and that official formalities were relaxed. In view of the complexity of these problems, the ICC doubts whether the Conference will be in a position to discuss in detail the various items of invisible income and expenditure. It confines itself, therefore, to submitting a few general remarks, while remaining at the disposal of the organizations which will pursue the detailed study of this important problem, to submit to them the suggestions of its specialized bodies and National Committees.

17. It will often be necessary, as shown in previous paragraphs, for developing countries to seek to attract foreign investments if their progress is not to be impeded by lack of domestic savings and experience of modern industrial techniques. Both fixed-interest loans and equity investments, if well-judged, will help to raise incomes in the receiving country and probably its capacity to export profitably. Though transfer difficulties may arise, it would be wrong to think of the service of foreign capital as a “burden” on the balance of payments, since the export earnings out of which any transfers have to be made will normally have been increased, in greater or less extent, by the influx of foreign capital. In addition, foreign investment can also have beneficial effects on the balance of payments by import substitution. However, although there should be no restrictions on the servicing of these investments, creditors and debtors alike should search for means of helping the developing countries to overcome the capital crisis with which some of them are at present faced owing partly to the preponderance in recent years of loans which represent temporary investments over direct private investments which are permanent in character. The ICC has frequently stressed that foreign investors, in their own interests as on wider grounds, should behave with due regard for the sensibilities of the countries in which they

operate. Equally, it is convinced that it is in the long-term interest of the developing world to maintain an economic climate in which foreign investors can rely upon fair treatment and so operate with confidence.

18. The other services, such as insurance and transport, play a vital part in the development of trade. All are a form of investment abroad. In the case of shipping—which is responsible for the carriage of some three-quarters of world trade—the service is largely privately financed. All these services are entitled to the same consideration as that outlined in earlier paragraphs for other forms of foreign investment. It is the efficiency and economic cost of the service that count and not the nationality of the company providing the service. Many misunderstandings would be cleared up if, as the ICC has recommended and is doing its best to achieve in the transport field, close contact could be established between the users and the foreign or national companies providing export-import, insurance, financing and transport services. In these fields, the development of mutual confidence and the recognition of the legitimate trading aspirations of both the parties offer the best means of ensuring the continued provision of these services to the satisfaction of all concerned.

International trade in goods

19. The central issue, which will dominate the Conference discussions, is that of trade properly so-called. The ICC considers that it will be hard to handle satisfactorily unless governments agree upon an action programme covering both the short-term and the longer-term.

20. The development of new industries in a large number of countries will ultimately produce changes in the structure of international trade. This happens each time a country diversifies its economy; it ceases to buy certain products abroad and exports new products. Thus, trade in complementary products gives place to trade in competing products. Contrary to expectations, this new type of trade has developed rapidly and has been beneficial to importing and exporting countries alike.

21. This trend in international trade has however created difficult problems in the past—and will continue to do so in the future—as it is bound to lead to claims for protection from the industrialists of the importing countries. The clash between autonomous commercial policies would result in paralyzing trade if governments did not agree to limit their freedom of action and ensure a minimum of stability by giving definite undertakings concerning equality of treatment, levels of duty, administration of quotas and granting of subsidies, to mention only the most important items.

22. Without the acceptance of certain rules to govern the framing and operation of their commercial policies, the developing countries cannot hope to expand their international trade. These rules—which need not necessarily be the same as those successfully applied by the developed countries—may take the form of multilateral undertakings or of bilateral agreements. Useful as bilateral agreements admittedly can be in certain circumstances, multilateralism seems to offer greater guarantees for the comparatively weak countries. Bilateralism, moreover, deprives the partners of the advantages of multilateral trade and settlements.

Repercussions of economic development on the structure of the developed countries

23. The ICC realizes that the economic development of the less-developed regions of the world will bring about a shift in the flow of international trade and will create problems both for the developed countries and for those in process of development. It is also convinced that, as has happened in the past, countries with already diversified economies will undergo some reorganization of their machinery of industrial production. These changes will inevitably raise difficulties of an economic and social nature but they will be less severe in a climate of economic expansion. In the last analysis, the changes will be to the advantage of all, since they will result in a more efficient use of the world's resources in goods, manpower and capital. The ICC is well aware, however, of the dangers of over-hasty action. Governments should therefore take financial and other steps to cushion as far as possible the impact of this reorganization on economic and social life. If the changes, necessary as they undoubtedly are, are pushed through too hastily or allowed to distort conditions of competition, they will give rise to substantial losses and stiffened opposition which could produce results contrary to those desired.

Temperate zone foodstuffs

24. There are some measures, however, which might produce tangible results within a reasonably short period. The Kennedy round of GATT negotiations, for example, could result in considerable progress in the field of temperate agricultural products (and of competing products of the tropical zone) through the conclusion, on a commodity-by-commodity basis, of world-wide agreements. Such agreements, whatever form they may take, should seek to ensure continuity of trade, to aim at price stability at levels reasonable to producing and to consuming countries and to provide that surplus production is put to constructive use. These agreements would include specific provisions that national support policies should not be such as to prejudice the successful operation of the agreements. With these ends in view, the ICC is submitting to the Contracting Parties proposals for the rules which should apply for agricultural products during the GATT negotiations. If the agreements envisaged by the ICC were to be negotiated during the course of the Kennedy round, arrangements would have to be made, where necessary, for countries concerned in international trade in the commodity in question to be able to participate, whether or not they were Contracting Parties to the GATT.

Tropical zone foodstuffs

25. The nature of the problem of international trade in tropical products is different from that for temperate zone commodities. There is growing evidence in this sector of structural over-production owing to
the increase in yields resulting from technological improvements as well as to increases in plantings which are now only coming into production. It would therefore be useful to adjust national production programmes to probable trends of demand and to put into effect national programmes of crop diversification. For a wide range of tropical products (including, for example, coffee, cocoa, coconut and coconut products, rubber, rice) study groups or commodity councils are in existence which review on a regular basis the position and prospects for the products concerned. Meetings of these specialist commodity groups are attended by national delegations of experts in the commodity concerned and by representatives of appropriate international bodies—governmental and non-governmental. The ICC regards it as important that countries significantly interested in production and trade in these products should endeavour to give practical effect to the recommendations of these councils or study groups and, bearing in mind the need for crop diversification, should seek their guidance on the prospects for production and trade in additional or alternative crops.

26. In the case of certain tropical products, international agreements or arrangements might be useful in helping to promote a better balance between supply and demand and more stable prices. For some tropical products, there are special problems: these arise from the preferential treatment accorded to the exports from some countries in some markets and from the application in some importing countries of internal taxes which have the effect of discouraging consumption. It does not seem necessary to have recourse to complex measures of international market organization, as in the case of temperate zone products, in order to solve these problems. It would probably be sufficient if an understanding were reached with a view to bringing about a closer alignment between world prices and those obtainable on the preferential markets. It is to be hoped, moreover, that the importing countries will agree to abandon the special internal taxes which they levy on such products.

**Industrial raw materials**

27. The case of industrial raw materials raises problems which generally differ from those of foodstuffs. Moreover, the difficulties arising are not due solely to fluctuations in demand; they often result from the partitioning of markets and from government intervention. The ICC recommends that for these raw materials there should be a case examination on a commodity-by-commodity basis, in order to find the most satisfactory solutions to their specific problems. When these problems so warrant, study groups, with government participation if necessary, could be set up in order to work out means of doing away with any artificial distortion of conditions of competition and of avoiding imbalance between over-all supply and demand.

28. The ICC considers that the countries producing raw materials should have free access to industrial markets for products having undergone simple processing. For that reason, the industrial countries should abolish as rapidly as possible existing non-tariff restrictions on such products; they should also reduce and, if possible, abolish, those customs duties which impede a normal flow of exports from the developing countries. In exchange for this, they should be assured of having their supplies of raw materials on an equal footing with the processing industries of the countries producing the raw materials, which means that the governments of these countries should refrain from imposing double prices, taxes or restrictions on exports of the raw materials and from any measure of direct or indirect export subsidy which would amount to unfair competition.

**Exports of manufactured products**

29. The problem of exports of manufactured products is a more difficult one. The ICC is strongly in favour of the abolition of the restrictions still imposed on imports of certain products from the developing countries. It realizes, however, that the importing countries will agree to abandon these measures altogether only if they retain the right to protect their industry by countervailing duties against cases of unfair competition resulting from direct or indirect government aid or by ad hoc measures in genuine cases of market disruption. The rules for the application of such measures should take full account of the situation of the developing countries and should be interpreted as liberally as possible as far as these countries are concerned. Furthermore, in order to avoid abuses, provision should be made for consultation and conciliation machinery, set up in accordance with GATT rules. Failing agreement on a procedure of this kind, the developing countries are unlikely to be able to count upon any steady development of their exports of sensitive products.

**Preferences and the most-favoured-nation clause**

30. The ICC has considered whether there is any likelihood of obtaining either on the markets of the industrial countries or on those of other developing countries, a system of preferential tariffs for products exported by the developing countries. It is not convinced that a general exception to the most-favoured-nation clause would be negotiable. It feels too that the adoption of such a general exception, far from helping these countries to increase their exports of manufactured products rapidly, would restrict opportunities for expanding international trade.

31. In relations between the developing and developed countries, if there were no longer equality of treatment between the various groups of trading partners, trading conditions would tend to revert to a state of uncertainty governed by arbitrary measures or left to the hazards of bilateral arrangements. As the situation of the developing countries varies greatly from one country to another, it would be impossible to divide countries into two groups, developed and developing, and the outcome would be a network of multiple preferences. Nevertheless, if experience showed that certain goods produced on an economic basis could find new outlets through more flexible conditions of access to the markets of the developed countries, there is no reason why recourse should not be had to the method of exceptions limited in time
and volume which has already been utilized for the benefit of certain developing countries. This method involves the examination of concrete proposals by an international organization within which the various interests are represented. The granting, during a transitional period, of quotas at nil or reduced duty by the developed countries, according to the same criteria, for imports of certain manufactured products which the developing countries could sell at competitive prices and without artificial aid, might stimulate trade. The application of such exceptions, after close examination of conditions of production and sale, would show how far the granting of privileges of this kind makes it easier for new producers to enter international markets. It should be noted here that several developed countries have already applied this method in favour of certain developing countries.

32. With regard to trade between the developing countries themselves, the granting of a general exception to the most-favoured-nation clause would have little effect as long as these countries continue to derive a large proportion of their revenue from customs receipts. The preference would probably take the form of an increased rate of duty on imports from the industrial countries, resulting in a rise in the prices of these products, which would then affect domestic products and be liable to cause a burst of inflation endangering the economic development of the importing country. Moreover, this system will lead to discrimination between supplying countries including developing countries themselves. A system of exceptions limited in time and volume appears more likely to produce rapid and tangible results.

33. The ICC is convinced that trade between developing countries—particularly as regards manufactured products—would grow substantially if these countries agreed to set up regional groupings within which many, if not all, of the products manufactured in the area could circulate without hindrance after a comparatively short transition period. Only by linking their trade to a system of regional planning can these countries succeed in avoiding the drawbacks of narrow domestic markets and in building up industries on an economic basis. Certain countries, particularly in Latin America, have embarked on such a course. The ICC hopes that the others will give objective consideration to the conditions under which regional integration measures can be carried out. Experience has shown that if governments are not prepared to undertake the commitments, admittedly of a far-reaching nature, implied by the complete integration of their markets, and confine themselves to fragmentary measures, there is no hope of effective co-ordination of domestic programmes; each country will pursue a policy more or less geared to self-sufficiency and economic development will fail to bring about optimum use of domestic and regional resources.

The institutional issue

34. Finally, the ICC has given careful consideration to the institutional issue. Existing bodies appear to have achieved results which some governments find satisfactory and others disappointing. In the ICC's opinion, the shortcomings complained of are not due to technical inadequacy or administrative weaknesses on the part of these bodies, or even of the fact that they are not all-embracing geographically. It feels in fact that the very nature of the problems discussed, the conflict between the interests involved, and the conditions under which any international negotiations must necessarily be conducted are quite enough to account for the fact that the governments with grievances have not always succeeded in obtaining satisfaction. There is no reason to believe that any more rapid progress would be made through a new body having neither the same experience nor the same methods of work.

35. The IBRD, the IMF, the OECD and the GATT have largely contributed to strengthening the position of the developing nations. However, in the commercial field, the GATT is the organization which has been mainly responsible for the expansion of international trade. Experience has shown that significant development of international trade has always taken place within the framework of international commitments based on mutual advantage. If the developing countries wish to increase their trade among themselves and with the developed countries, they too will have to trade on the basis of international commitments, which need not necessarily be exact copies of those subscribed to by the major trading nations. However, these commitments may be framed, it is essential that countries wishing to develop their trade should be willing to accept them and that procedures be established for securing their observance.

36. For reasons of efficiency and economy, the ICC is convinced that it would be better for the application of the rules accepted by the various groups of countries to be entrusted to a single organization. The GATT has the necessary experience to deal with these problems; it is based on specific commitments protecting each country's rights; furthermore, it is not an immutable treaty and has been altered several times to take account of new trends and particularly of the needs of the developing countries. The organization has shown flexibility and has adapted itself to changing circumstances; it is thus both effective and capable of improvement. The ICC hopes that in reaching its decisions, the Conference will take full account of the experience acquired by that body and of the working techniques it has successfully developed.

37. Certain proposals have been made for setting up a new organization to cover all trading activities, to which those countries would belong that conduct their trade along strictly bilateral lines and are therefore hard to place in bodies formed to operate on a multilateral basis. The ICC believes that the creation of new machinery would lead to confusion and serious delay in the fulfilment of the aspirations of the countries participating in the Conference. Perhaps it may be thought worth while to achieve better co-ordination of the work of existing organizations and to stress certain trade problems which have not fallen within their terms of reference. If so, care should be taken that these new activities are of a complementary nature or limited to tasks of co-ordination. They should in no case be allowed to circumscribe the functions of the existing bodies or to weaken their authority.
MEMORANDUM SUBMITTED BY THE WORLD FEDERATION OF TRADE UNIONS*

The expansion of world trade with the elimination of distortions in the trading pattern and more effective use of trade in promoting economic and social development, will strengthen international economic cooperation and provide a better basis for the workers and peoples in all countries on which to achieve satisfaction of their demands for higher living standards, the reduction of unemployment, and other improvements in their conditions. Thus it is closely linked with two basic aims of the trade unions: the promotion of the economic and social interests of workers and the preservation of peace.

The World Federation of Trade Unions, grouping 120 million workers in its affiliated unions in capitalist, socialist and developing countries, has therefore paid great attention to the problem of developing and normalizing international trade.

It is at present taking an active part in the preparations now being made for the convocation of a World Trade Union Conference for the Expansion of International Trade, which will give particular attention to the ways in which trade expansion can help the workers.

For the same reasons, the WFTU in 1959 proposed to the twenty-eighth session of the United Nations' Economic and Social Council the calling of a conference on international trade and the abolition of embargoes. It has supported the convocation of the present Conference on Trade and Development ever since it was first proposed, and considers that it should mark the beginning of a new phase of continued international action to ensure that trade makes a more effective contribution to economic and social development.

The WFTU wishes to submit this brief statement to the Conference in order to emphasize certain aspects of world trade which are of particular concern to the workers and their trade unions, and to indicate the type of action it considers necessary to enable trade to play a greater role in promoting economic development and raising the living standards of working people.

**THE DISTORTION OF TRADE IN THE INTEREST OF THE MONOPOLIES MUST BE ENDED**

The benefits of international trade do not automatically flow to the economies of the countries concerned, or to their peoples. A great deal of world trade is in the hands of big private companies wielding enormous power and acting in their own narrow interests, thus inevitably distorting the world trade pattern. Whether trade does in fact contribute to economic and social development therefore depends on the conditions in which such trade takes place, and on the success of the workers and peoples in their struggle for economic and social progress.

Although governments can take decisions on tariffs, quotas, licences and other measures to exercise some control, it is private companies, and above all the big monopolies which decide, for a large part of world trade, what goods shall be produced and exchanged in what quantities and at what price.

The amalgamation of big companies in the past decade, by agreements, mergers, takeovers, etc., has resulted in an enormous concentration of their economic power at national and international levels. The formation of the European Economic Community has stimulated this concentration in the six member countries. The monopolistic groups have tried to ensure a protected market in the six countries and the associated territories by the use of discriminatory tariffs and other means; this further distorts world trade patterns and creates serious obstacles to the trade of the member countries with the socialist and developing countries.

Other artificial obstacles to trade with the socialist countries maintained by many capitalist States, bring additional disruption of the natural flow of trade.

The developing countries are faced with a situation in which the patterns of trade and production imposed under the colonial system, even on countries which were not directly colonized, have reduced them to the role of raw material suppliers and exclusive markets for the manufactures of a few capitalist Powers. Furthermore, since the war, in the increasingly intense struggle for privileged markets and sources of supply, the great international combines and cartels have multiplied their foreign investments in both developed and developing countries, thus increasing their control of production and trade in a large part of the world. Among other consequences, the resultant capital movements, interest and dividend payments have frequently upset the balance of payments of developing countries. In their efforts to achieve economic independence and growth, the developing countries face opposition from these big trusts, which make full use of their own economic power and also press their governments to apply policies aimed at retaining the basic features of these inequitable trading and production patterns, which enable them to make super-profits at the expense of the people in developing countries.

* The Secretary-General of the Conference was requested by the World Federation of Trade Unions (WFTU), a non-governmental organization in category A consultative status, that this memorandum be brought to the attention of the Conference.
The grip of the oligopolies on trade, and the inadequate action by governments—or often action in the interests of these big companies—have serious consequences for the workers. The resultant distortion of trade flows, the fight for protected markets with monopoly prices and the fierce competition among these companies, leads to disturbances in trade and payments balances; attempts are made to solve these difficulties by demanding further sacrifices from the workers, who are faced with false alternatives of inflation or austerity, by “incomes policies” or other means. Though they are often applied under the pretext of foreign trade needs, restrictive economic policies attacking living conditions can only distort and in the end restrict world trade. On the other hand the improvement of the living standards of the working people, bringing a more equal distribution of income, gives rise to a steadier demand for goods needed by the mass of the people, and thus facilitates the achievement of a regulated import-export balance, on a more stable basis than is possible when less essential and luxury goods account for a disproportionate part of world trade. There is thus a two-way relationship between the healthy expansion of world trade and the raising of living standards, in opposition to the policy promoted by the big combines, who see in the restriction of wages and earnings of the people the main sources of their profits.

In carrying on trade, in making investments, these monopolistic companies are concerned only with maintaining their power and obtaining the maximum profit possible, regardless of the national interests of the countries in which they operate or of the workers and peoples who live there. As long as they have free rein, the effective use of trade as an instrument of economic development, of planned industrialization and social progress, is impossible.

It is therefore essential to examine the activities of the monopolies in the field of trade; the policies which are used, particularly by developing countries, to exert some control over these activities; and the measures that can be taken at international level to increase this control, so that trade can play a more positive part in promoting development.

WHAT THE WORKERS EXPECT FROM THIS CONFERENCE

The convocation of the Conference is in itself a recognition that trade is not contributing to economic and social development as it should; that indeed in some respects the present distorted pattern of trade is hindering development. Moreover, the convocation of the Conference is a recognition that this is not a technical problem but one on which decisions of general policy are necessary and possible at the international level.

Of course such decisions, even when achieved, cannot transform the world trading pattern over-night. The colonial division of labour and the attempt to cut off the socialist countries from the rest of the world economy have left their mark on the pattern of production in all countries, a mark which it will take many years to eradicate. But the Conference can make specific proposals for action aimed at eliminating as rapidly as possible the major distortions in world trade and thus helping development towards a more balanced world pattern of production. These proposals should therefore promote action to open up and diversify trading patterns on a universal basis, particularly by the elimination of barriers erected to maintain a colonial or neo-colonial trading pattern, and obstacles to trade between socialist and capitalist States.

In the light of these considerations, the WFTU believes that proposals for action on the following general lines should be put forward by this Conference:

1) Adoption of a Charter of Principles for international trade based on respect for national sovereignty and non-interference in internal affairs, equality and mutual benefit; and the promotion of continued action to ensure the replacement of trade and economic relations based on the use of unequal economic power by relations based on these principles.

2) Elimination of all artificial obstacles to trade between socialist and capitalist States, and ending of the shameful blockade of Cuba, which represents a threat to all developing countries adopting an independent economic or political policy.

3) Measures to promote the independent economic growth of the developing countries, for example, by:

- helping them to overcome their current difficulties in trade and payments balances and their shortage of capital, above all by compensatory measures to redress the inequitable terms of trade and the losses they have suffered due to colonialism and continued neo-colonial exploitation;

- enabling them to obtain capital for development and particularly industrialization, without making concessions infringing on their economic or political independence or limiting their choice of markets: for example by long-term low interest loans or credits, with possibilities for repayment in local products; such assistance should help developing countries to avoid dependence on foreign capital, so that they can limit such foreign investments they find it necessary to accept and direct them, as required, by national interests and notably within the framework of their development plans; the setting-up of a United Nations’ specialized agency for industrial development could make a valuable contribution to industrialization and thus to the consolidation of the economic independence of these countries;

- opening up markets to the raw and manufactured products of these countries without discrimination between them; stabilizing raw material prices at remunerative levels by equitable international commodity agreements, long-term trade contracts and other means;

- assisting the formation of independent regional organizations of developing countries to promote economic co-operation and development;

- assisting developing countries to build their own merchant marine and to eliminate the domination of shipping services by the Maritime Conferences controlled by the big shipping companies.
(4) Continued study of the contribution which the reduction of arms budgets could make to international trade and developments, and of the relationship between the development of trade on one hand and the easing of international tension, the development of peaceful co-existence and economic competition among States with different social systems on the other hand.

(5) Above all, it is important to establish machinery to ensure the adoption and application of the measures prepared by this Conference, and to continue the work begun here on a permanent basis. The need has been strongly felt at the Conference for a universal organization in which continuous discussions on world trade and development problems could take place and which would have the power to co-ordinate action in this field. Whether such an organization emerges from this Conference, or whether some partial steps are first taken, as in the proposals for periodic conferences and an effective standing committee, the WFTU considers it essential that any such machinery must provide the possibility for the workers' organizations to express their point of view and be consulted continuously on all important questions concerning world trade and development. The active and conscious participation of the workers at all levels is indispensable if economic development is to be soundly based and to lead to social progress.

* * *

In view of the outstanding importance of this Conference for the workers as for other social groups, the WFTU, without attempting to deal in detail here with the many problems of trade and development wished to submit these comments for consideration by the Conference, in the conviction that they indicate some general lines on which action is necessary to eliminate obstacles and distortions in international trade, to enable this trade to expand and to make a greater contribution to economic and social development. This Conference, of course, can only stimulate this process to the extent that it can reach agreement on proposals for effective action, in face of considerable political opposition. Its work must be continued, and, above all, pressure must be brought to bear to overcome the resistance of the giant trusts and monopolies. The workers of all countries will play their part in helping to overcome this resistance, and the WFTU will continue its efforts to mobilize their full united strength in the struggle to ensure that international trade serves the interests of the workers and peoples, the interests of progress and peace.
TRADE AND DEVELOPMENT

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VOLUME VIII. MISCELLANEOUS DOCUMENTS AND LIST OF PARTICIPANTS

Volume VIII contains those documents of the Conference on Trade and Development which are published for reference purposes. These documents consist of the reports of the three sessions of the Preparatory Committee, followed by a letter from the Secretary-General of the Conference containing a list of the questions that were brought up in preliminary discussions on the various topics of the agenda, as had been promised at the Third Session of the Preparatory Committee; a number of letters and memoranda concerning some of the other issues raised during the meetings, five draft recommendations which could not be discussed for lack of time, but which the Conference felt were of sufficient interest to warrant their transmission to the "continuing machinery", the relevant extract from a booklet published by the FAO which is now difficult to obtain but which was frequently referred to during the Conference, memoranda from two of the non-governmental organizations and finally the list of members of delegations attending the Conference, of observers sent by various organizations, and also of the secretariat of the Conference.

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