

# GENERAL AGREEMENT ON TARIFFS AND TRADE

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## ACTIVITIES IN OTHER INTERNATIONAL ORGANIZATIONS ON TRADE EXPANSION AMONG DEVELOPING COUNTRIES

Note by the Secretariat

Revision

Both the Committee on Trade and Development and the Group on Expansion of Trade Among Developing Countries have indicated that it is their intention, in dealing with the various aspects of this subject, to take into account studies made and discussions held in the UNCTAD and other institutions. This paper intends briefly to outline, for the immediate reference of the Committee, relevant activities in UNCTAD. A more detailed account, as well as references to activities in other institutions will be included in a comprehensive study which the secretariat has been asked to undertake.

Since the last meeting of the Group, the UNCTAD Trade and Development Board has held its fourth session. Papers presented to that session included a report by an Expert Committee on "Trade Expansion and Economic Co-operation Among Developing Countries" (TD/B/68 and addenda) and a report by the UNCTAD Secretariat on "Trade Expansion and Economic Integration Among Developing Countries". The latter report was first made available to the Expert Committee and subsequently presented to the Board in a revised form (TD/B/85). In addition, the UNCTAD has circulated a report of a Group of Experts on Payments Arrangements among Developing Countries (TD/B/80), which is pending examination by the Committee on Invisibles and Financing Relating to Trade.

### The Report of the Expert Committee (TD/B/68 and addenda)

The report discusses trade expansion and economic co-operation among developing countries under the following headings:

- (a) Commercial policy measures not conditional upon harmonization commitments;
- (b) Co-ordination of investment and/or production programmes;
- (c) Trade expansion by means of establishing a regionally integrated market;
- (d) Other methods of expanding trade;
- (e) The relationship between trade among developing countries and trade with other countries.

The conclusions and recommendations of the Expert Committee, as set forth in Chapter VII of the report (TD/B/68, pages 31-34) are as follows:

"1. The unsatisfactory expansion of foreign trade has been an important obstacle to the growth of developing countries. There is, therefore, an urgent need for action in this field. So far, the problem of trade and economic co-operation among the developing countries has not received the attention it deserves. A determined effort needs to be made by the developing countries to exploit systematically and intensively the opportunities available for trade expansion and economic co-operation among themselves. This would not only foster their economic growth but should contribute to strengthening their overall position in relation to the developed countries in world trade.

"2. Expansion of trade among developing countries can be promoted through:

- (a) commercial policy measures not conditional upon commitments regarding the harmonization of other policies;
- (b) the co-ordinating of investment or production programmes;
- (c) the regional integration of national markets.

These approaches are not mutually exclusive. The applicability and relative advantage of each method will depend on various circumstances such as the size of the internal markets of these countries, their level of development, their economic and trading systems, the relative importance of their public sector, and geographical proximity.

"3. With respect to trade expansion through commercial policy measures, the aim should be to secure a reduction of trade barriers on as wide a basis as possible so as to minimize discrimination among developing countries. Negotiations for trade liberalization with other developing countries would hold out better prospects of success if the more advanced developing countries did not insist on strict reciprocity. This approach to trade expansion would offer only limited prospects of success unless governments of developing countries were prepared to modify their development policies so as to make room for a better division of labour.

"4. Aside from trade liberalization measures per se, co-ordination of investment and production programmes would contribute to a more rational division of labour among the countries concerned and would widen the scope for efficient investment. Such agreed specialization would, in the nature of things, require measures with respect to the exchange of goods. Agreements of this kind may cover one or more industries, involving vertical or horizontal specialization among the partners. Similarly, the supporting trade measures could take a variety of forms, e.g., free trade in specific products or long-term purchase agreements.

"5. The case for integration of national markets derives predominantly from the fact that the size of the domestic markets of many developing countries imposes severe limitations on their ability to exploit the economies of scale and specialization, and hence on the possibilities of industrial growth. To be successful, any integration scheme should give to each participating country a reasonable assurance that it will obtain a fair share of the ensuing benefits. Furthermore, the governments concerned may have to undertake special commitments in such fields as trade, investment and taxation, and establish a number of appropriate common institutions. It is particularly important that the position of the less industrialized countries be safeguarded in such regional integration schemes. The establishment of an integrated regional market would also call for the harmonization of the policies of the partners towards foreign capital. Measures would have to be taken to strengthen the rôle of national and regional enterprises with regard to both capital and skills, particularly in view of the probable increase in the flow of foreign private capital, supported by advanced technology, when regional integration occurs.

"6. In line with the above conclusions, we strongly urge the governments of developing countries to submit to the second session of the United Nations Conference on Trade and Development a clear statement of their attitudes with respect to the various methods of trade expansion and economic co-operation. They should further agree to formulate, under UNCTAD auspices, programmes of action which can be initiated before the third session of UNCTAD. In particular, these programmes should include proposals relating to the acceleration of existing efforts aimed at regional integration and economic co-operation, and the initiation of new schemes with the same objectives. Moreover, the governments of developing

countries should discuss among themselves the most appropriate means for minimizing the risks of discrimination among themselves and formulate joint proposals for submission to UNCTAD, which should consider them in co-operation with other competent international agencies.

"7. The developing countries should ensure that their fiscal, monetary and exchange rate policies do not inhibit the expansion of their mutual trade and the progress of economic integration.

"8. The developing countries parties to the General Agreement on Tariffs and Trade should exploit such opportunities as are currently provided by the Kennedy Round to lower their trade barriers on products of interest to the developing countries even though in the short run the results are not likely to be substantial.

"9. Where developing countries grant, under existing arrangements, preferences to developed countries, they should aim to extend the same treatment to all developing countries.

"10. While trade expansion measures would have to be undertaken by the developing countries on their own initiative, and while such measures could be implemented by their own action, there are a number of ways in which developed countries and international institutions could assist these efforts:

- (a) developed countries should take steps with a view to the elimination of preferential arrangements which hamper the efforts of developing countries to expand their trade and economic co-operation, it being understood that transitional measures would have to be worked out to compensate countries now benefiting from such arrangements;
- (b) developed countries should not insist that measures of trade liberalization agreed among developing countries should be extended to themselves as of right;
- (c) when aid to developing countries is normally tied to procurement in the donor countries, arrangements should be made to permit recipient countries to use aid funds for purchases from other developing countries;

- (d) donor countries and international institutions should consider the provision of additional funds for regional and multinational projects. Their willingness to provide these funds might be an effective means for overcoming resistance and obstacles to trade liberalization and economic co-operation among developing countries. Attention should be given to the need for financing pre-investment and feasibility studies to ensure that an adequate number of such projects would be forthcoming;
- (e) special consideration should be given to the cushioning of balance-of-payments risks resulting from measures of trade liberalization or integration, either through the International Monetary Fund or through regional payment facilities assisted by donor countries.

"11. The United Nations Conference on Trade and Development should make the necessary arrangements for studying the currently available experience on measures for trade expansion, economic co-operation and integration among developing countries, with a view to ascertaining the major obstacles which have impeded progress in the past. These studies should focus also on questions relating to the distribution of gains from integration and the reform of the tax system necessitated by the elimination of import duties.

"12. The United Nations Conference on Trade and Development should make the necessary arrangements for effectively transmitting knowledge and operational experience to the developing countries that engage in trade expansion and integration efforts, bearing in mind in particular the experience that developing countries of other regions have gained in this respect.

"13. The United Nations Conference on Trade and Development should arrange, in collaboration with the appropriate international agencies and the regional economic commissions, for the provision of the necessary technical assistance to governments or regional groupings in undertaking studies concerning the feasibility of projects for trade expansion and regional integration."

The UNCTAD Secretariat report (TD/B/85)

The Secretariat report discusses, in Chapters I and II, the potential and requisites for the economic integration of developing countries. It explains in this context how integration can promote economies of scale, enable advantage to be taken of location and specialization, enhance efficiency in industry, reduce the external vulnerability of the developing economies and increase the

bargaining power of the developing countries, (pages 7-17). This is followed by a discussion of the conditions for the exploitation of the potentialities of integration and exposé of the reasons why an approach to integration should be gradual.

Chapter III of the report contains a review and evaluation of the methods for advancing towards regional markets among developing countries, beginning with a description of the experience realized in moving towards regional markets in the various developing areas. This is followed by a discussion of various problems arising in this process, viz., the problems of equitable distribution of benefits, of regional investment policy, of trade liberalization and its scope, and of institutional set-up.

Chapter IV discusses the problems and possibilities of expanding trade among developing countries as a whole. It contains a review of the pattern and characteristics of trade among developing countries, the obstacles in the way of trade expansion, the value, disadvantages and limitations of the bilateral approach, possible methods in the tariff and non-tariff fields for promoting such trade, the compatibility between regional and "universal" efforts and considerations relating to the safeguard of the interests of third countries.

Chapter V analyzes the relationship and interplay of the objectives of (a) expansion of exports to developed countries and (b) expansion of trade between developing countries.

Chapter VI, in discussing the juridical problems involved in any special trading schemes among developing countries, reviews the present legal situation, with particular reference to the GATT provisions on most-favoured-nation and non-discrimination, and suggested certain possible approaches in this regard, and possible solutions to a number of problems, mainly those relating to the rights and interests of third countries.

Chapter VII on future action discussed both the desirability and feasibility of a concerted plan, and possible lines of recommendation for consideration by governments. In the light of an analysis of the institutional requirements, the report concludes with a review of the functions that the UNCTAD Secretariat might appropriately carry out in this field.

#### Action by the Trade and Development Board

At its fourth session, held in October 1966, the United Nations Trade and Development Board took note of the two reports and decided that a discussion on trade expansion, economic co-operation and integration, on a regional, sub-regional and inter-regional basis, among developing countries should take place at its fifth session with special regard to (a) action to be taken by developing countries; (b) international action to be taken in support of the efforts of the developing countries; and (c) the further steps for preparing the programmes to be considered in this respect at the second session of the Conference.

Report of the Group of Experts on Payments Arrangements among the Developing Countries for Trade Expansion (TD/B/80)

The Group's report, circulated in July 1966, covered:

- (a) Types of payments arrangements.
- (b) The ~~contribution~~ contribution of payments arrangements to trade expansion.
- (c) Exchange-rate policy and trade expansion.

The appendices to the report covered studies on the following:

- (a) The European Payments Union.
- (b) Existing and proposed payments arrangements.
- (c) Dual exchange rates for promoting manufactured exports.

The conclusions and recommendations of the Group of Experts, as set forth in Chapter V of the report (TD/B/80), are as follows:

- (i) Payments arrangements in general (whether clearing arrangements, credit arrangements, or monetary unions) could make a positive contribution in varying degrees towards the expansion of trade among developing countries.
- (ii) Payments arrangements must take into account a number of factors, particularly the degree of multilateralism of payments already achieved, and the stage of co-operation or integration attained or desired.
- (iii) The extent to which such payments arrangements could contribute to the expansion of trade may depend, among other things, upon the provisions of credit facilities in those arrangements.
- (iv) Credit arrangements should be supported by contributions to a central fund from the member countries themselves.
- (v) Contributions by developed countries to such funds would represent an efficient use of development finance, and would promote more efficient use of other development finance.
- (vi) Clearing arrangements should be non-discriminatory, except where the alternative would be reliance on bilateral arrangements.
- (vii) For purely practical reasons, and because of the non-economic considerations involved, a payments arrangement is likely to be confined at least at the outset to a relatively small number of countries. Any such

arrangement which originates mainly from economic consideration should, as a general rule, make provision for the addition or association of other countries.

(viii) The International Monetary Fund should take special account of the payments problems posed by trade expansion among developing countries, and should consider sympathetically, on a case-by-case basis, requests for increases in quotas that may be called for in the light of such trade expansion.