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LDC BENEFITS FROM THE COMMON MARKET, OECD/DAC, GATT, UNCTAD AND ILO

A CASE STUDY

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INTRODUCTION

This study attempts to appraise the net benefits derived by the LDCs (less developed countries) from 5 international economic organizations. It recognizes that the benefits and costs directly and indirectly attributable to the organizations are intimately related to the aid, trade and other national policies of the DCs (developed countries) and LDCs. The study also attempts, where possible, to identify the LDCs most affected by different types of benefits and costs. The EEC, OECD/DAC, GATT, and UNCTAD were selected for their aid and trade themes, with major emphasis on the EEC (Common Market). The ILO was selected as a convenient example of a UN specialized agency. (See list of organizational and other abbreviations at end of paper.)

Aside from reading of available written materials the study was carried out through approximately 60 interviews with officials of the international organizations and of the US and foreign governments, plus some qualified private individuals. About two-thirds of the interviews were held during a 3-week trip to the headquarters of the 5 organizations in Brussels, Paris and Geneva. Due to the surprising scarcity of written evaluations and estimates on this topic, chief reliance had to be placed on the judgments and consensus of those interviewed. Sincere thanks are due those many kind persons. And forgiveness is asked for any errors of fact or interpretation.

General Conclusions on Trade

Trade is a major theme of this paper, involving the world's traditional trade organization (GATT), the LDC's favorite forum for trade proposals (UNCTAD) and history's leading innovator in trade relations (the EEC). A few general conclusions and comments can best be made separately from the appraisals of those organizations.

Among those consulted there was a surprising agreement that, despite their recent expansion, preferences are of relatively little importance in the current world trade picture due to reductions in DC tariff levels (down to an average of 8-10% on industrial products) and the existence of numerous non-tariff barriers and policies which effectively protect established DC industrial and agricultural production. Where tariffs are fairly important they are frequently on processed goods whose components enter at zero or low tariffs, which results in an even higher rate of effective tariff protection on the processing (an effect known as "tariff escalation"). Thus, given all the trade obstacles still prevailing and the limitations on the preferences extended, the LDCs cannot expect large benefits either in terms of export growth or price increases. Further, whatever gains are obtained will go largely to the most advanced LDCs, e.g., Yugoslavia, Brazil. In some LDCs there will also be little translation of increased export revenues into additional resources for development rather than consumption. Thus, despite their current popularity with the LDCs, preferences are a weak tool for assistance relative to aid, particularly for the least developed countries.

Looking to the future, preferences are likely to be even less important as the DCs move gradually toward the goal of a global industrial free trade area. Elimination of all industrial tariffs would have 3 effects on the LDCs: (1) it would eliminate the recently attained and much prized (and overrated) GSP (generalized scheme of DC preferences on LDC industrial exports, extended for 10 years on a non-reciprocal basis); (2) it would restrict EEC discrimination in preferences among LDCs to a few agricultural products; and (3) it would eliminate "tariff escalation", an effective DC means of protection that has been relatively ignored by the LDCs. While the overall effect on the LDCs would at most be mildly negative, the prospective elimination of the hard-won GSP could open the door to special issuance of SDRs (IMF special drawing rights, or "paper gold") to LDCs as compensatory aid. Such aid would be more equitable and effective than GSP, and the use of SDRs for aid now appears more likely as a result of their recognized monetary role and the poor prospects for maintaining or increasing total aid by normal appropriations, e.g. the failure of the US Congress to approve an enlarged IDA contribution, which is likely to result in a decline in total aid in real terms. It is estimated that most SDRs for LDCs would flow back to DCs as the result of increased LDC imports.

The most certain means by which DCs can increase LDC exports is to deliberately shift out of uneconomic agricultural and industrial production by gradually eliminating subsidies and barriers to imports and by providing compensatory adjustment assistance to domestic producers. Since the increased LDC export revenues would largely flow back to the DCs this is an attractive long-run economic solution. Due to its short-term impact on particular groups, however, little progress is likely to be made, and in fact barriers may be raised in the U.S. The LDCs increasingly perceive that it is established DC production, and not competing DC exports, that is their main export problem, and that limited preferences (vis-a-vis the DCs or each other) can have little effect on this central problem.

LDC protectionism has been largely ignored by GATT and UNCTAD (and to some extent by the EEC) out of misplaced sympathy for LDC infant industry and balance of payments problems. Since a number of LDCs (e.g. Brazil, Korea, Taiwan) have demonstrated that adoption of liberal trade and financial policies can lead to rapid growth, the case against over-protectionism and excessive regulation of trade is now stronger than ever. Yet the most vocal LDCs in UNCTAD are seeking complete non-reciprocity in terms of DC-LDC trade relations, i.e. LDCs should automatically receive all benefits agreed among DCs (or otherwise extended to LDCs) without any obligation to reduce their own trade barriers. Given the DC interest in development results signified by their nearly $7 billion p.a. in aid, it is questionable whether they should be so tolerant of extreme protectionist measures. Perhaps some upper limits should be set for any country's protectionism (e.g. maximum tariffs of 100%, to be lowered to 70% or 50%) or the DCs should extend future trade benefits only to those LDCs avoiding extreme protectionist policies. As in the case of the DCs, the LDCs need outside help to resist the temptations of protectionism, which could be provided by GATT and UNCTAD with DC support.

The foregoing comments point up the need to bring together trade, aid and monetary considerations, particularly as they relate to development, in the various consultative fora (UNCTAD, GATT, OECD/DAC and EEC) and in the general monetary and trade negotiations slated to begin in 1973. Unfortunately the fragmentation within governments on trade, aid and monetary matters is paralleled among international organizations. Only UNCTAD discusses (very inconclusively) the entire range of developmental questions. Compartmentalization of complex negotiations may be necessary for pragmatic reasons, but compartmentalization of thinking and advance planning in capitals and in broad consultative organizations (such as the OECD/DAC) seems inexcusable.

General Conclusions on Organizations

The largest generalization about the 5 organizations is that it is difficult to generalize. Each organization has diverse operations and relations affecting LDCs. These have been identified and, where possible, estimates of benefits and costs have been made or reported. Due to the lack of evaluative studies it has been particularly hard to judge the relative efficiency of various operations and to estimate the impact in the LDCs themselves of the organizations' technical assistance, policy influence, etc. Only the UNCTAD/GATT Trade Centre has been the subject of outside expert evaluations. Most of the organizations have little or no internal evaluative mechanisms. There is a crying need for more.

Each of the 5 organizations appears to have a benevolent orientation toward the LDCs. In fact they are often sympathetic to the point of being uncritical, e.g., the overlooking by GATT and UNCTAD of helpful measures which the LDCs themselves might take. In part this is because member LDCs (of GATT, UNCTAD and ILO, plus representatives to the EEC) demand a sympathetic attitude and (with a few exceptions) do not play an important role in substantive discussions. LDC representation to the organizations studied is weaker than it need be, resulting in little professional discussion of common LDC problems and the results of alternative policies. Only in UNCTAD do the LDCs play a major role and even there the discussion is largely political, with substantive discussion dominated by a relatively few LDCs and the Secretariat.

As to the current posture of the 5 organizations, only the EEC is on the upbeat. The roles of OECD/DAC, UNCTAD and GATT in the forthcoming trade and monetary negotiations are not clear. The ILO has been in a mild state of shock since Meany & Rooney "cut off its water"; it appears to be drifting, though its World Employment Program represents an innovative attack on a serious problem.

EEC (European Economic Community, or Common Market)

The enlargement of the Common Market from 6 to 10 members on January 1, 1973 will make it the world's leading developed area in terms of population, total external trade and private capital flows to LDCs, though it will remain second to the U.S. in GNP and total development aid. The acceptance of Association status by 20 eligible Commonwealth countries, plus 3 North African states, could by 1975 increase to 41 the number of LDCs receiving both aid and trade benefits. The extension of trade agreements to additional countries could easily bring to 65 or 70 the total number of LDCs with whom the EEC will have "special relations". Despite this proliferation of arrangements, however, and despite the extension to all LDCs"generalized preferences" on manufactures, the EEC will continue to favor European and African LDCs over Asian and Latin American LDCs.

Structure: Enlargement will complicate an already complex set of EEC-LDC relationships. All dependent territories of members are and will be part of the Common Market and will receive aid from the EDF (European Development Fund of the EEC). Two European LDCs (Greece and Turkey) have special agreements of association looking forward to eventual membership; only Turkey receives financial aid (outside the EDF). Four other European LDCs (Spain, Portugal, Yugoslavia and Malta) have preferential trade agreements, and Cyprus is negotiating one. (Greece, Spain and Yugoslavia are obviously advanced LDCs, or poor DCs. Under the Rome Treaty membership is theoretically open to all European countries).

In Africa, 18 former colonies of the Six have been Associated states of EEC since its formation, generally reciprocating trade preferences and receiving EDF aid (currently $918 million for 1971-75 under the second Yaounde Convention). Three East African Commonwealth countries (Kenya, Tanzania and Uganda) have a trade preference agreement (Arusha Convention) with the EEC. Morocco, Tunisia and Algeria also enjoy trade preferences and are expected to be offered Association status as of January 31, 1975, when relevant agreements expire.

Commonwealth LDCs have been divided into two main categories: (1) 20 countries (include the Arusha 3) with production structures considered similar to those of the Associated 18 and (2) 5-6 Asian countries (India, Pakistan, Ceylon, Malaysia, Singapore and now Bangladesh) with allegedly more advanced economies. The former have been offered the choice of Association (with the 18) as of January 31, 1975, under a new general aid and trade convention to be negotiated, or separate negotiation of special association or trade agreements. Mauritius (1 of the 20) requested immediate Association, which has been granted along with $5 million additional for the EDF; 12 of the other 19 Commonwealth LDCs are in Africa, while 4 are Caribbean and 3 are Pacific islands. The 5-6 Asian Commonwealth LDCs have been offered only a "re-examination" of their trade problems after UK accession next January.

In addition to the above relationships (involving 54 LDCs) the EEC has negotiated special trade agreements with Iran, Lebanon, Israel and Argentina and is in the process of negotiating others (with Brazil, Uruguay, Egypt, etc.). "Generalized preferences" (GSP) have also been extended to the 91 LDCs eligible under the UNCTAD proposal, which includes nearly all of the countries mentioned above.

Benefits of Association: Trade - Since 1958 the 18 Associated African states have had by far the closest relationship with the Six, except possibly for Greece and Turkey. In general a free trade area has existed among the 6 and 18 except for EEC protection of farm production and African protection of their infant industries, balances of payments and regional groupings. However, due to zero EEC tariffs on most African raw materials and the lack of significant industrial exports by the 18, only one-third of Associated state exports benefit from an EEC tariff preference. UNCTAD studies have concluded that such preferences have had little effect on trade flows but have provided a price benefit estimated for 1966 trade at a maximum of $75 million p.a., or 5% of total exports to the EEC, split among African suppliers (largely Ivory Coast, Cameroun and Senegal) and EEC buyers. Since EEC external tariffs on most tropical products have been reduced or eliminated since 1966, the value of 1972 preferences can be estimated at only about 2.5% of total exports (7-8% preferences on 1/3 of exports) or $50 million. Other benefits to the 18 have been an acceleration of their economic independence through opening non-metropole channels, some promotion of regional groupings and intra-regional trade (which remains small) and an ability to limit trade benefits given by the EEC to competing LDCs.

Despite aid and trade help, exports of the 18 to the EEC have grown slowly and their share in EEC imports actually fell from 3.2 to 2.3%, 1960-69. The principal factors appear to be (a) the relative unimportance of preferences in actual trade, (b) effective EEC protection of agricultural production, e.g. of high-cost sugar beet production equal to 105% of sugar needs, (c) lack of EEC investment in low-wage industrial exports by the 18, perhaps reflecting protectionist obstacles and pressures within the Six, and (d) the relative underdevelopment of many of the 18, including their colonial inheritance of some subsidized uneconomic exports. By the same token other LDCs (collectively) cannot be said to have suffered from preferences granted to the 18.

The cost of Association has been the famous "reverse preferences" generally granted to EEC suppliers by most of the 18. For example, average preferences by the ex-French states of the Central African union have been estimated at 21%. An unpublished UNCTAD study suggests that higher prices for non-EEC imports have not been offset by lower prices for EEC imports, particularly from France which continues to dominate (though to a lesser extent) the trade of its former colonies. French export prices to Associated countries were estimated to average about 10% higher than those to non-Associated countries and over 10% higher than those of other EEC exporters to the 18. (French exports to the 18 are roughly $750 million p.a.). Whatever the explanation (institutional advantages, monopoly, or cartel factors) and the extent of loss, "reverse preferences" facilitate such "reverse transfers" of resources, offsetting export preference benefits and EDF flows. The affected Associated states could attempt to reduce the alleged "monopoly loss" by eliminating reverse preferences, at some risk of reducing aid, or by encouraging closer trade ties with other EEC members. However, reverse preferences have not prevented the 18 from diversifying their imports at some expense to the total EEC share, and imports from the EEC now equal only two-thirds of exports to the EEC.

Benefits of Association: Aid - EDF aid to the 18 is now up to $200 million p.a., or twice the level of five years ago. It constitutes only 10% of worldwide official development aid (ODA) by the 6 but equals 30% of total aid to the 18. Bilateral aid by the 6 equals about 55% of total aid to the 18, or approximately $375 million p.a. Total aid by the 6 to the 18 equals (pays for) over 40% of EEC exports to the 18. As a result the 18 fare relatively well: on the average a little over $8 per capita in aid from all sources, vs. a worldwide average of just over $4. EDF aid is given on very lenient terms (80% grants) and goes to 8 of the world's 25 least developed countries.

The results of this abundant aid, given largely in project form, are difficult to evaluate. For whatever reasons, the EEC does not publish the growth rates in real terms of the 18. However, Africa as a whole grew by 4.5% in 1960-70, vs. 5.6% for all LDCs. Earlier EDF aid was concentrated on education, health and infrastructure projects yielding long-term benefits. In response to African complaints the EDF is now emphasizing industrialization, competitive exports, longer-term programming and regional integration. It was not possible to judge program efficiency on the basis of available materials and interviews. The EDF undertakes fairly extensive technical review of projects but does not attempt to influence general development policies, in keeping with the wishes of the 6 and the 18. To this writer the most serious defect in the EEC approach is the lack of links among EEC aid, private investment and marketing opportunities in Europe. Investment guarantees (for the 18 or all LDCs) seem needed to exploit the export potential of trade preferences, and EEC officials have publicly conceded the conflict between the aid objectives and protectionist measures of the 6.

While Association has created various joint consultative bodies of the 6 and 18, which appear to be working well, the EEC Commission has proposed that the 6 and the EEC coordinate more closely their aid programs and other measures affecting the 18 and other LDCs. It has also suggested that the 6(or 10) set joint aid goals, e.g. 0.7% of GNP for ODA, noting that the total ODA of the 6 fell from 1.08% to 0.42% of total GNP during 1960-70 (though remaining higher than the ratios for the US and UK). Due to the political considerations behind much bilateral aid these proposals have not been favorably received.

Trade Agreements with Others: The trade agreements with the North and East African states have admittedly brought them few benefits, and the weakness of preferences alone in promoting development is recognized within the EEC. Agreements with other LDCs are also limited in scope and value, largely due to the negotiating constraints imposed on the EEC: protection of its own industrial and agricultural production; avoidance of harm to the Associated states and to trade agreements with other countries; pressure from the U.S., e.g. re preferences on Spanish and Israeli oranges; and obligations under GATT (sometimes breached) to avoid discrimination and to develop specific long-term programs for new free trade areas. Basically there is little scope for granting valuable benefits except when EEC dependence on continuing large-scale imports is perceived, as in the case of the current meat shortage and the resulting long-term benefits being negotiated by Argentina, Chile and Uruguay. Otherwise only a few LDCs with relatively large markets, e.g. Brazil and India, are able to negotiate from any strength. The Latin Americans as a group have won agreement to occasional joint conferences but this remains to be translated into remedial actions on specific grievances (similar to those obtained from the joint US/LA committee created in 1970). A possible additional LDC benefit from preferential agreements was proposed by an EEC official: if the EEC agreed, an LDC could extend its reverse preferences (with the EEC) to another DC in return for aid or other benefits, thus converting reverse preferences from a liability to a negotiating asset of the LDC.

Impact of GSP: The EEC supported generalized preferences and was the first to institute them, on July 1, 1971. Unfortunately, the benefits to the LDCs have been minimal so far and, with a few exceptions, are likely to remain so. The GSP applies to less than 25% of LDC exports to the EEC. It includes cotton textiles, jute and cocoa products (re which exporting countries have to negotiate "special measures" with the EEC) and a variety of processed agricultural goods (on which preferential reductions will be limited, to protect Associated suppliers). For the remaining items covered, tariff-free quotas have been established, based on total 1968 imports from eligible LDCs (equal to about $500 million) plus 5% of imports from other sources (good for another $500 million in quotas). Quotas are thus on an old base and unrelated to production within the EEC. Further, no single exporter can use more than 50% of a quota. Such quotas, unlike a simple tariff preference, create complexity and uncertainty: EEC buyers and LDC suppliers cannot know in advance whether the normal tariff or no tariff will apply when a good arrives at an EEC port, so that in practice the tariff preference is frequently ignored and proves only a windfall benefit for the lucky EEC buyer. Furthermore, LDCs have to comply with certain formalities to become eligible; by February 1, 1972 only 23 of the 91 eligible LDCs had complied. The complicated EEC measures appear to be in contradiction to the under-developed condition to which they are addressed.

Initial results of GSP on a comparison basis are not yet available. Yugoslavia has gained the only significant benefits in the German market. EEC import data for the last 6 months of 1971 suggest that Brazil and Iran may also have benefitted, which is consistent with the expectation that the most advanced LDCs will benefit most (despite some limits on individual quotas). No great effect on trade flows are expected, due to the quota system, and the uncertainties involved are expected to limit price benefits to the LDCs. (The EEC has not made an estimate of benefits; however, average EEC tariffs of 6.2% and 8.7% on semi-finished and finished products, if applied to a possible $700 million in GSP-covered imports, would yield about $50 million in price benefits split among EEC buyers and LDC suppliers.) Spain and Portugal have asked to benefit from the GSP, which would further reduce benefits for the Asian and Latin American LDCs, described in Community statements as the expected prime beneficiaries of GSP.

Impact of Enlargement: As indicated earlier, the number of Associated LDCs could increase from the present 19 to 41, or nearly half of all LDCs. In addition 5 other African LDCs (Guinea, Liberia, Ethiopia, Sudan and Egypt) which have not so far indicated an interest in Association could apply under a 1963 Declaration of Intent made by the 18. EDF aid is expected to increase proportionately to a maximum of $4-500 million p.a. beginning in 1975, with unknown effetts on bilateral aid. The number of "least developed" recipients could also increase from 8 to 14, out of a total of 25.

On both aid and trade the Asian Commonwealth LDCs have been discriminated against. Other Commonwealth LDCs have been given a 3-year standstill on present preferential access to the UK market, plus the choice of Association or special agreements beginning in 1975, while the Asians have been told to await UK accession. The rationale that the Asian LDCs are more industrialized obviously refers to their perceived export potential rather than their GNP structure or level of incomes; e.g. Ceylon is less modern and industrial than the Ivory Coast. EEC officials also privately admit that Association is being limited because of the large aid burden potentially represented by the populous Asia countries.

Enlargement, with its expanded network of preferences, will certainly diminish the intended effects of GSP. There will also be differential effects on different groups of LDCs and a probable loss in total LDC sales to Europe. An UNCTAD study estimates that, assuming elastic supplies, the Association with the EEC of the non-Asian Commonwealth LDCs would result in a large gain for them in non-agricultural exports to Europe, equal to 12% of their total exports to Europe. However, even larger absolute losses would be suffered by the Asian Commonwealth LDCs, and also by other non-Associated LDCs, due to additional losses from increased sales by the 6 to the UK and vice versa. Collectively all LDCs could lose up to 20%, or almost $500 million, of their non-agricultural exports to Europe, equal to about 4% of their total exports to Europe (based on 1969 data, pre-GSP, static effects only, price gains and losses ignored). An FAO dynamic model for 1980 reportedly projects even larger absolute losses for total LDC agricultural exports as the result of continued practice of autarkic and protectionist agricultural policies within an enlarged EEC.

On the positive side the 4 new EEC members are likely to take a broader, less political view of development and to support current proposals of EEC officials for increased EEC assistance to commodity stabilization agreements and export promotion, reduced taxes and tariffs on tropical products and a "Mediterranean policy" involving closer ties and multiple forms of help.

OECD/DAC (Organization for Economic Cooperation and Development; Development Assistance Committee)

As its name indicates, the OECD is concerned with Development, chiefly in 3 ways: assistance to its own member LDCs, which is being phased out; pressure through DAC on member donors to meet agreed aid volume and terms targets; and the operation of the OECD Development Centre for research and exchange of information. In addition policies affecting LDCs (e.g. trade, science and technology, education) are discussed in various OECD committees other than DAC. DC (Group B) consultations prior to UNCTAD meetings are held under OECD auspices, as were DC negotiations to agree on similar GSP concessions. Given all these activities and its traditional orientation toward cooperation and liberalization, the OECD can be viewed from the perspective of the LDCs as a fairly benevolent self-interest grouping.

The 23-member OECD is also not entirely a "rich man's club", since it includes 4 members (Greece, Turkey, Spain and Portugal) and an associate member (Yugoslavia) which have identified themselves as LDCs for some purposes and still receive about $1.3 million annually in technical assistance from the OECD. Since these countries are now fairly well developed this aid is being phased out. In the future the only special benefit will be the OECD's continued sponsorship of the Turkish aid consortium. Each member LDC always speaks on its own behalf and never as a representative of "the LDCs".

Composed of 16 member donors the DAC has a mixed record in terms of results. Although total ODA (official development assistance) has increased fairly steadily in absolute terms since the formation of DAC in 1961, it has fallen relative to total member GNP, from 0.52% to 0.34% in 1970. Four small countries (the 3 Scandinavians and Switzerland) were definitely encouraged to institute significant aid programs in the early 1960's, and their combined ODA rose from $31 to $242 million, 1961-70. Among large donors Germany and Japan have registered large absolute increases, but US and UK aid peaked in absolute terms in 1964 and French aid has stayed roughly constant.

DAC was unable to reverse a trend from grants to loans during the 1960's but its terms targets can be given partial credit for softer loan terms. The average interest rate on ODA loans fell from 3.6% to 2.8%, 1965-70, while the average maturity rose from 22.6 to 30.2 years.

Members have been unable to agree in DAC on either a target or a precise definition for ODA, though most members accept the UN Development Strategy target of 0.7% of GNP. DAC members have been unable to agree on limiting export credits (when debt is serious) and DAC has no influence on purely private flows to LDC's, although these flows have increased the fastest since 1961. Pursuant to a U.S. initiative, DAC members nearly agreed on untying of ODA by August 15, 1971, when the US "temporarily" withdrew support of its own proposal. Questions of multilateral aid and the operation and coordination of such agencies and banks are not discussed in DAC, since some members feel that these matters should be discussed only within those organizations themselves. A representative of the EEC attends DAC but can speak only on EDF matters.

Despite a very active and innovative Chairman (Edwin Martin) the DAC currently appears to be marking time, awaiting renewed interest, policy shifts and a larger mandate from its principal members. The major likely change in the aid field -- the use of SDRs to transfer resources to the LDCs -- is presently considered a monetary question to be discussed in the Group of 10 (or 20) and not in DAC. Meanwhile the sharing of information and ideas on aid goals and methods goes on at DAC meetings and Annual Aid Reviews, with some presumed benefits. But there has been little high-level representation and interest in recent years. Perhaps it is time to ask Why? and How can the major worldwide aid questions before the donors best be discussed?

The Development Centre is sometimes called the OECD's "window" to the LDCs but its limited budget is more consistent with a small porthole. With a budget of about $1.3 million it attempts to carry out research on development and population questions, promote an exchange of information and views among DC and LDC research and training institutes, bring DC and LDC experts and officials together to discuss specific topics and run a "question and answer" service on behalf of the LDCs. Obviously the funds are spread thinly and it is difficult to evaluate such a diffuse program, which has failed to arouse much enthusiasm among either OECD members or LDCs. However, the economic research program has successfully pioneered in certain areas (notably unemployment, which has been valuable for the ILO World Employment Program) and there is a great need for improved dissemination and utilization within the LDCs of development research results.

GATT (General Agreement on Tariffs and Trade)

Most but not all LDCs belong to GATT, where they constitute about two-thirds of its 78 Contracting Parties and all 15 affiliated states. One way of evaluating LDC benefits is to ask why some don't join. About 30 LDCs (e.g. Mexico, Ethiopia) implicitly believe that they can do as well through unilateral actions or bilateral trade agreements, free of GATT's non-discrimination and other rules; i.e. the costs of compliance, including representation at numerous meetings, are felt to outweigh perceived benefits. In fact non-members derive some benefits from GATT just because it exists and its rules are observed by most trading partners. A better approach is to ask what benefits do LDCs in general obtain as the result of the existence of GATT. Five types of benefits are usually noted:

(1) MFN (most favored nation) benefits of DC trade negotiations, i.e. the automatic extension on a non-discriminatory and largely non-reciprocal basis of tariff, quota and other trade concessions negotiated by the major trading countries. While impossible to quantify, this is considered by far the most important benefit of GATT, since it affects LDC access to the world's major markets and since most LDCs have very little to offer in trade negotiations. On the other hand DC trade negotiations take place on items of interest to them (e.g. the Kennedy Round, which largely ignored major LDC exports) and it would be grossly inconsistent for the DCs to extend development aid while overtly denying equal market access to LDCs.

(2) Formal exemptions from reciprocity. This goes beyond normal MFN benefits (above) in terms of a general DC commitment to assist LDCs (under Part IV of GATT) plus specific exemptions for GSP (generalized preferences) and an intra-LDC preferential arrangement. Part IV (adopted in 1965) gave a partial blessing to the principle of non-reciprocity for LDCs. The GSP was given a GATT waiver on MFN in early 1971 (see other sections for evaluative comments). Last November GATT gave approval (with only the US abstaining) to a proposal of 16 of the more advanced LDCs (including some non-GATT members) to extend negotiated preferential tariffs among themselves only, without commitment to an eventual free trade area. This agreement (not yet in force) would cover about $60-70 million of $550 million in total trade among the 16, and other LDCs could negotiate accession. Since the tariff reductions are not substantial and since non-tariff barriers are understood to present more serious obstacles, no great effect on trade is expected. However, the establishment of the principle and of an initial mechanism for encouraging intra-LDC trade is felt to be of long-run significance for the LDCs.

(3) Tolerance of high trade barriers. Article XVIII of GATT authorizes LDCs to use high tariffs and quantitative restrictions to protect their infant industries and balance of payments. While such protective measures are reviewed in GATT, a very high tolerance for such measures has developed, partly out of a misguided attempt to "assist" LDCs and partly because non-members are free in this regard (except for unlikely retaliation). Since a good case can be made that over-protectionism and excessive regulation of trade hinder rather than promote development, GATT has done a disservice in this case, as some officials privately state.

(4) Technical assistance from GATT and the International Trade Centre. The GATT secretariat provides considerable general and specialized information to the LDCs (e.g. re DC trade barriers of negotiating interest to LDCs) and assists them upon request (e.g. in helping the 16 organize their intra-LDC trade agreement). GATT also provides a commerical policy course for LDC trainees, which has reportedly been of great value. (See also below re Trade Centre.)

(5) Special consultations on items of interest to LDCs, pursuant to Part IV. Through various GATT procedures about 100 of 250 identified DC restrictions on LDC exports have been eliminated or converted into reasonable tariff rates. For over a year a high-level "Group of 3" (headed by the Director-General) has also studied various specific barriers to LDC exports and made recommendations. So far, according to the Chairman, despite two series of consultations the response by affected DCs to "the Group's generally very modest recommendations has been extremely meager."

A final impact of GATT, with mixed results for LDCs, is its increasing tolerance of discrimination in trade arrangements, with the spreading EEC network being the prime example. Some of these, e.g. the EEC agreements on oranges with Spain and Israel, are intended to benefit poorer countries at the expense of richer (in this case the U.S.). Others, such as the forthcoming EEC discrimination against the Asian Commonwealth LDCs, favor one group of LDCs over another. The growing "EEC bloc" in GATT has the votes to override objections, but the undermining of the principle of non-discrimination is a serious one, and the LDCs themselves could be the victims in a less benevolent, more protectionist world. With the present trend in EEC discrimination seemingly irreversible, GATT's best role would seem to be to reduce the value of discrimination by eliminating the trade barriers on which it is based.

UNCTAD (United Nations Conference on Trade and Development)

(Only a limited number of interviews were possible re UNCTAD, due to the meeting of UNCTAD III in Santiago, Chile during the time allotted for this study, and this paper is being written prior to the conclusion of that important conference.)

UNCTAD is generally regarded by the LDCs as their principal forum within the United Nations and on the world scene. Since it was created (in 1964) at the request of the LDCs and is numerically dominated by them acting as a group (96 out of 142 nations at UNCTAD III) its function is sometimes viewed rather as that of a political lobby group for the LDCs and as a means of confronting the DCs with embarassing demands. Contributing to this impression is the strong tendency of the Secretariat in Geneva to be more interested in larger resource transfers from the DCs to the LDCs than in objective analysis and presentation of alternative ways in which development might be accelerated, including specific measures which LDCs might undertake. For example, there has been little analysis of the common pattern of liberalizing policy reforms which underlie the recent export and growth successes of countries like Korea, Taiwan, Mexico and Brazil.

UNCTAD's chief value to the LDCs has been that of developing and advancing ideas re new forms of assistance and of requiring the DCs to pay some attention to them. Although Edwin Martin (Chairman of DAC) recently described UNCTAD meetings as "a barren sort of confrontation between the foreign offices of the LDCs and the ministries of finance and trade of the DCs," UNCTAD can take credit for some specific advances:

(1) GSP (generalized preferences) is definitely an UNCTAD product and has been instituted by all major DCs except the US. Its value remains to be determined but benefits are unlikely to be large and will go to the most advanced LDCs, such as Yugoslavia and Brazil. Whatever its value, it is now threatened by DC talk of creating an industrial free trade area, which has created concern (and a "high tariff lobby") among the LDCs.

(2) Commodity agreements have received high priority within UNCTAD, its largest division being devoted to their promotion. Credit (in varying degrees) can be given for current agreements on Tin, Sugar, Olive Oil and Wheat. While export earnings are judged to be greater than if no agreements existed, the net resources made available for development through higher prices is questionable. Undoubtedly the DCs could get more results through a transfer of resources in the form of aid, e.g. through tariff revenues used to finance aid projects. In keeping with its "resource transfer equals development" belief, the UNCTAD is actively pursuing similar marketing agreements for Cocoa and Tea (which would have stabilization as well as price benefits).

(3) UNCTAD has also focussed attention on a number of LDC problems and has helped develop specific proposals which have had or promise to have some effect on DC actions, e.g. re the volume and terms of aid, use of SDRs to finance aid, measures to help the "least developed", special IMF

credits, and recognition of LDC interests in shipping conferences.

(4) There is undoubtedly some educational value to UNCTAD meetings and secretariat papers. The "research" output is weak in the normal sense, tending to buttress the policy line of the organization with appropriate statistics, but it has contributed innovative ideas. (The somewhat separate Trade Finance Office in New York has a good reputation.) At times the secretariat plays a leadership or advocacy role in LDC caucuses, rather than a neutral, informative role.

(5) Aside from joint sponsorship of the International Trade Centre, very limited technical assistance is provided by UNCTAD, a 5-man mission to explain GSP operations to LDCs being the only recent example. As in the case of GATT, few LDCs take a detailed interest on a technical level. Most take only a general political interest and follow thelead of the secretariat and the few active LDCs.

The future of UNCTAD is uncertain, particularly prior to the close of UNCTAD III. Perhaps it will continue its advocacy and confrontation roles, achieving some slow progress, such as acceptance of the SDR link with aid. Perhaps it can play some useful role in bringing together trade, aid and monetary considerations during the forthcoming trade and monetary negotiations. But, in my opinion, to earn additional responsibility it will have to adopt a more objective, less political stance, create a more professional secretariat and take a more serious look at development problems and LDC policies.

<u>International Trade Centre</u> (UNCTAD/GATT)

This center, founded by GATT in 1964 and jointly operated with UNCTAD since 1968, appears to be of considerable benefit to interested LDCs. Financed in part by UNDP funds, it will provide nearly $5 million in training and technical assistance this year. Partly as a result of consultations with LDCs and partly as a result of its unique evaluation effort, its program is being oriented more toward field activities, longer-term and better-integrated country programs, the least developed, the effort of 16 LDCs to establish a preferential trade arrangement and market research on processed goods and on markets other than Europe. Although it has activities involving about 70 LDCs, the most advanced make the most use of the Centre, though some training is done in and largely by these countries (e.g. India).

<u>ILO</u> (International Labor Organization)

The LDCs do not fit well into the ILO, due to its tripartite structure (equal representation for the government, workers and employers of each member) and its historic orientation (since 1919) toward the advanced European economies. The LDCs generally lack associations of workers and employers that are free of government control or influence, and their economic and labor problems are quite different from those of the DCs. Nevertheless, the ILO has made an effort to be responsive to LDC needs in recent years. The chief types of benefits comprise:

The <u>WEP</u> (World Employment Program) has received the most publicity and would seem to have the most potential. However, the concrete results of its studies and recommendations over the past 2 years are meager to date, and its greatest contribution may have been to call attention to the growing unemployment (and population) problem and to the wide array of measures (e.g. tariffs, interest rates) which LDCs generally can take to alleviate it. Although the high-level, multi-agency teams (unique to the UN system and sent so far to Colombia, Ceylon, Iran and Kenya) and their reports have received the most attention, the LDCs in the long term may benefit most from the WEP's semi-permanent regional teams, its research program and its many small technical assistance projects. The WEP also seems certain to have a permanent influence on other cooperating organizations (such as FAO, UNESCO and IBRD) although the ILO cannot coordinate their response to its studies or to employment problems generally.

As a specialized UN agency the ILO also engages in various other forms of technical assistance with UNDP funds ($33 million total in 1971, plus $5 million from ILO and trust funds, there thus being little effect from the US withholding of funds from the ILO). While the LDCs in the ILO Governing Body exhibit no consensus as to their priority needs, in practice there is a hierachy of LDC interests and apparent benefits. There has been the greatest interest in vocational training, and apparently the most effective ILO assistance has been to LDC training programs providing modern industrial skills. This is not true for the ILO's own Turin Centre for Advanced Technical and Vocational Training, which provides a sad history (including poor management and political problems) of the UN trying to directly operate a training program, rather than making institutional and training grants. There have also been technical assistance successes reported in other fields, e.g. business management, social security, occupational health and safety. The ILO Institute for Labor Studies (on social policies and problems) holds courses mainly for LDC participants and promotes a fair amount of research (e.g. on worker participation) with a budget of only $500,000 p.a. LDCs have expressed least interest in assistance to "industrial relations".

Overall the ILO appears to have been neither more or less effective in its technical assistance than other UN agencies. Like those, its relative successes and failures have been due as much to LDC inputs as to its own, and its effectiveness has been limited by the sovereignty of recipients and its lack of capital assistance funds to meet related needs and provide leverage. In the case of the ILO, however, the necessity for tripartite consultations in each recipient slows down both the project design and implementation process.

The LDCs have benefitted little from the ILO's attempt to create an international code of labor standards due to the great diversity of conditions. Despite efforts to strike compromises between high DC and low LDC standards, the LDCs generally have either not adopted or not enforced agreed standards. In almost all cases the standards pertain to domestic, not international, matters dependent on the level of development and social/cultural practices (e.g. the question of paid vacations for farm workers) . Of even less relevance to the LDCs are the periodic meetings of the ILO's industrial committees, which reflect the European production structure of 1919 and are of very dubious value to even the DCs.

Even with US payment of its arrears on a minimum basis, the future of the ILO will remain uncertain. At base is a conflict between the UN principle of universality and the ILO principle of tripartitism, which has led to political feuds and exclusion of communist worker and employer representatives. The LDCs have been largely on the sidelines on this issue, not unified and without great influence. Aside from drifting along, which is the most likely course, the chief alternatives with respect to the ILO appear to be (1) operating it on a strictly governmental basis, like other UN agencies, with tripartite meetings being either purely advisory or shifted to the OECD, or (2) dissolving the ILO and dividing its functions among appropriate UN agencies (UNESCO, UNIDO, FAO, WHO).

APPENDIX

List of Abbreviations Used

Organizations (in order)

EEC: European Economic Community

OECD: Organization for Economic Cooperation and Development

DAC: Development Assistance Committee (of OECD)

GATT: General Agreement on Tariffs and Trade

UNCTAD: United Nations Conference on Trade and Development

ILO: International Labor Organization (of UN)

Others (alphabetically)

DC: Developed country

EDF: European Development Fund (of EEC)

GSP: Generalized scheme of preferences

LDC: Less developed country

MFN: Most favored nation (under GATT)

SDRs: Special drawing rights (of the IMF)

WEP: World Employment Program (of ILO)