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UNCTAD IV AND THE THIRD WORLD SCENARIO – A FOREWORD

GODFREY GUNATILLEKE

The forthcoming session of the United Nations Conference on Trade and Development in Nairobi will focus world attention on some of the critical problems of the prevailing international economic system. The present number of the Marga Journal is published as a special issue devoted to some of the themes of the Conference which have particular relevance for Sri Lanka's economy. Besides other material, the publication includes some papers that were presented and texts of speeches that were delivered at the National Seminar organised by the Social Sciences Section of the Sri Lanka Association for the Advancement of Science. The Sri Lanka seminar was part of an international programme initiated by the UNCTAD secretariat to promote a constructive and wide ranging public discussion of UNCTAD issues in both the industrialised countries as well as in the Third World. The programme has also set itself the long term objective of establishing links with national research institutes and developing a wide network of research into problems of international trade and development which could support the UNCTAD secretariat in its work. The programme therefore seeks to open out new opportunities to concerned scholars and students of development problems throughout the world to collaborate actively and participate closely in the search for new structures of trade and economic exchange between nations.

The National Seminar on UNCTAD IV

The different positions taken by participants at the Sri Lanka Seminar on the various issues relevant to UNCTAD reflected a

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wide heterogeneity of views. They represented a cross-section of the ideas and opinions that are held on the global initiatives that have been launched to change the prevailing structures of international economic relations. They provide some insights into the problems and constraints which beset Third World countries in their efforts to evolve strategies for collective action. The opening session of the Seminar attempted to place the UNCTAD issues in their international setting and spelt out some of the global implications of the UNCTAD proposals and their broad relevance for Sri Lanka. But when the global perspective was scaled down to the dimensions applicable to Sri Lanka's economy, participants began to inquire more critically and more specifically as to how closely our own economic interests were involved in the fortunes of the Nairobi Conference. Among the sceptics, there were participants who advocated a cautious approach to global schemes, and preferred to safeguard the clearly identified national interests within the known relationships rather than opt for a global scheme in the pursuit of what seemed to be an elusive collective interest. They were unconvinced that such a scheme would be able to reconcile the short-term with the long-term objectives, the national with the collective interests. There were others who expressed their forthright criticism about the capacity of the U.N. system to deliver the goods, to produce any tangible results. There were many participants who while acknowledging that the collective self-reliance of the Third World was a profoundly inspiring concept, saw the differentiation among developing countries, their diversity of economic interests, and the changing pattern of external linkages as an insuperable obstacle. Yet others argued for radically new patterns of self-reliant development which implied a drastic severance of external economic links and called to question global approaches which were aimed at integrating the developing economies with the international economic system. These were a sample of the critical views that were expressed in the course of the discussion.

The U.N. System and the Third World—Some Problems and Issues

These criticisms will unravel some of the different strands in the complicated pattern of Third World hopes and aspirations interwoven as they are with grave doubts and hesitancies. It would be appropriate to begin with the misgivings voiced about the U.N.

system, the mixed responses its activities evoke in the Third World. The inveterate critics of the U.N. system must first recognise that the system could only be as effective as the member-nations make it. The system itself will essentially reflect the balance of political and economic power which prevails outside it. Its scope and capacity as an instrument for engineering change in the system of international economic relations will be eventually determined by the member-nations themselves and the strategies they pursue individually and collectively. It is naive to expect that the U.N. system could effectively change the system of international economic relations if the international structure of political and economic power within which it functions is strongly weighted against such a change. The U.N. system on account of its universally representative character is however capable of playing a vital catalytical role in international affairs. Within the restricted scope of its decision-making power, the U N. system is the one forum in which developing countries can represent their interests as equals in the international community. This universality of representation, this equality of participation is an underlying cause of the exasperation often expressed by spokesmen of the big Western powers at the proceedings of the U.N. It is a vexatious fiction in a real world in which they are the dominant partners. It is however this very universality which has empowered developing countries to articulate their aspirations fearlessly, to present their manifestos to the world community even in the knowledge that they were powerless to act. It was in UNCTAD that this drama was enacted most forcefully. The decade that has passed saw the emergence of the Group of 77, the trade union of the developing countries. UNCTAD was the forum in which the developing countries were able to launch on a fundamental critique of the international economic system. Though what was accomplished in concrete terms may have been little, though the concessions that were wrung were marginal, the exposure in UNCTAD had pervasive and far-reaching effect. To some extent the developing countries were able to lay bare the inner structure of their economic relations with developed countries, many idols in the pantheon of the market economic system were challenged. The mythology surrounding the unequal exchange between developed and developing nations which sought to legitimise it and give it universal validity was exposed. UNCTAD provided b th the organisational means and the conceptual tools with which the Third World was able to assail the existing world economic system in which they were captive. It did the groundwork and laid the foundations for the process which culminated in the declaration of a New International Economic Order. It would therefore be self-defeating for developing countries to adopt a negative approach to the U.N. system, to censure it for ineffectuality, or devalue its role. Such an approach would in fact unwittingly lend support to the objectives of the powerful developed nations who have persistently through a variety of devices sought to shift the centre of international negotiations and decision-making from the universal forums to more limited organs where the balance of world power is more truly reflected—organs in which the developed nations could more freely use their levers of power. The Paris Conference with its ongoing commissions has posed this type of challenge to the developing countries.

This situation in which different forums are competing for the negotiating role is also linked to another more fundamental issue to which Third World countries need to alert themselves. It is related to the different strategies that are being offered for steering the world economy out of its present crisis. The hard core market approach still favours the use of aid and resource transfers, the establishment of compensatory finance mechanisms on a broader, more automatic and more flexible basis, an improvement in the conditions for net resource transfers and so on. Briefly, the developed countries argue that if the market forces happen to operate against a few unfortunate poor countries the system should be able to provide compensation for such countries. The developed countries are apprehensive of any large-scale intervention in the market system which disturbs the present mechanisms for maximising profits in business enterprises in their countries or which allows the ongoing process of capital accumulation in the developed countries. For them the existing system is still the best of all possible systems. They contend that the enormous technological and economic power it has been able to generate gives it a resilience which will enable it to weather the crisis with a few adjustments in some parts which still leaves the market to function essentially as it is. Such a solution will perpetuate the present relationship of dominance and dependence between the industrialised nations and the Third World countries. The levers of power will be retained firmly in the hands of the developed countries.

The governments of developing countries on the other hand see the crisis as a symptom of fundamental flaws in the system itself. The crisis is inherent in the relationship between developed and developing countries as it is structured in the prevailing order. To a great extent it lies in the inbuilt propensity of the system for the maldistribution of world income and productive capacity. The trading relationships, the transfer of technology, the global distribution of primary and secondary production, all lead inevitably to a growing imbalance as between the purchasing power and effective demand of raw material producing countries on the one hand and industrialised countries on the other. The developing countries are therefore asking for intergovernmental intervention in the world economic system on a more effective and larger scale. The structure of trading relationships needs to be altered and regulated to provide better prices for their primary products, give them a greater share of world industrial production and trade, allow more equitable access to markets and supply the technology they need on improved terms. The realisation of these objectives call for the management of commodity markets. It demands more effective industrial adjustment policies in the advanced countries which result in a better and more equitable international division of labour. Productive capacity in those industries in the advanced countries in which developing countries have comparative advantage have to be progressively transferred to the Third World. There has to be an international framework which regulates the transfer of technology and alters the present unequal relationship between suppliers and recipients, improves the bargaining power of the recipients and enhances their technological self-reliance.

The Agenda for UNCTAD IV is an attempt to integrate the best elements in both these approaches. It recognises the stabilisation of the commodity sector as the base for economic development in the majority of developing countries. It then concentrates on some of the elements necessary for the technological transformation and industrialisation of Third World countries—elements which lie at the heart of the development process. It seeks to give a thrust to a new pattern of collective self-reliance among developing countries which will help to alter the structure of dependence of the South on the North. Underpinning these it also seeks a new deal on aid and resource transfers including the relief of external debt, all of which will alleviate the acute short-term problems of developing countries. The major problem which developing countries would have to cope with is the emphasis which advanced countries are likely to place on the short-term solutions and the compensatory package to the relative neglect of the structural and long-term problems. The success with which the developing countries can direct attention to the structural problems will largely depend on the skill with which they use the UN system for progressing steadily towards their objectives.

The Commodity Programme and Countervailing Power

The foregoing discussion leads us logically to another critical issue. As stated earlier, several participants in the Sri Lanka Seminar cautioned against an uncritical acceptance of global schemes; quite understandably they regarded the national interests as paramount and questioned the practicality of an effort to reconcile the interests of individual countries with the collective interests of the Third World as a whole. These questions go to the very heart of the Third World problem—the problem of evolving a credible and effective strategy for collective negotiations on international economic issues. To understand the dimensions and character of the problem we need to recognise the recent shifts in the international scene. In the last three years the environment and framework for international debate and negotiations on economic issues has undergone very significant changes. The energy crisis and the action of oil producing countries have visibly disturbed the old balance of economic power and given new bargaining strength and power to raw material producers of the Third World. The developing countries are called upon to adjust their sights within a new perspective. This adjustment calls for a shift from the phase of declarations and articulation of general principles to the phase of hard negotiation on specific issues. The search for new structures in world trade and development has now matured to the point at which it can fulfil itself in concrete forms of action. And it is at this very point that the underlying diversity of economic interests in the Third World begins to manifest itself. We witness the growing contradiction in this situation. On the one hand the rationale of economic co-operation among developing countries has gained a new momentum and dynamism in the concept of collective self-reliance. On the other, the opportunities for concrete action have uncovered the divergence of national interests.

Sri Lanka for example initially approached the integrated programme strictly from the point of view of its two major exports—tea and rubber. Past experience had demonstrated that tea was a particularly difficult commodity for any type of international arrangement designed to regulate markets and reverse prevailing price trends. In the case of rubber, discussions were already taking place and specific problems had surfaced in the course of negotiations. In this context, Sri Lanka would wish to calculate the short-term costs and benefits of participating in the integrated programme with the greatest care. A contribution to the common fund would be an outgoing of hard currency in a situation of acute foreign exchange stringency. The prospects of mounting fruitful negotiations on tea or successfully concluding negotiations in rubber were uncertain. The special advantages of tea and rubber being part of a group of commodities were not immediately apparent. The larger perspective of joint action on a wide range of commodities produced by developing countries became somewhat obscured and distanced when the short-term problems came to the foreground. All this is to be expected as even minor disturbances in the field of external trade or in the flow of official assistance is likely to create serious internal dislocations within the present pattern of development in which Sri Lanka would continue to be heavily dependent on its external links.

But the preoccupation with the immediate national interests, the difficulty of balancing short-term with the long-term interests, is a typical quandary of a developing economy which is acutely vulnerable in a highly unpredictable external environment. To the extent it is entrapped in its short-term operations it will continue to struggle in this environment incapable of developing the long-term strategies which can lift it out of its present predicament. The long-term strategies would require action which transcends the national boundaries and strategies which bring producers together and builds up collective bargaining power and joint negotiating skills. This is not the place to demonstrate the effectiveness of a multi-commodity approach as against the single commodity approach. Some of these positive features of the integrated programme are discussed in another article in this issue. It is however necessary to stress here the fundamental importance of the integrated programme for enhancing the collective bargaining power of Third World countries and consolidating their self-reliance. It may not be possible at this stage to spell out all the possible benefits that will accrue from an integrated programme in the case of tea and rubber, which it would not enjoy if it pursued the conventional commodity by commodity approach. Nonetheless the potential benefits could be broadly visualised. Tea and rubber would be included in a concerted programme which encompasses a host of other aspects of commodity trade besides stocking arrangements. These include compensatory financing, medium-term and long-term commitments for purchases and supplies, processing of commodities. Principles established in respect of one commodity could be transferred to another where applicable. The levers for bargaining on any single commodity are more numerous and more flexible. As exchange and trade-offs to reach agreement need not be confined within the bounds of a single commodity, they can extend to a wide range of commodities. A country could look at a bundle of commodity exports together and calculate the net benefits on the entire bundle. For example, a *quid pro quo* between India and Sri Lanka or India and Indonesia on a different commodity—rubber—may facilitate agreement on tea. The integrated programme throws open a whole range of negotiating possibilities.

Above all, each commodity stands to gain in regard to its bargaining power when it forms part of a basket of key commodities. The integrated programme has in fact attempted to give concrete and constructive expression to the initiative which Third World countries displayed in the Sixth Special Session of the U.N, when they perceived the intrinsic link between raw materials and development and joined forces in the pursuit of their common interests. To the extent that the Third World is capable of sustaining the initiative it would be able to push in the direction of a new world economic order. By providing common facilities it allows greater opportunities for joint action, it facilitates formation of producer associations and makes possible supportive forms of collaboration in which weak commodities could gain from the strong to the overall benefit of each raw material producing country. The knowledge and understanding of commodity markets which the integrated programme would bring will shed light on the prevailing price structures, the barriers to market access and systems of marketing and distribution. It will accumulate a common fund of knowledge and information which it can share with each other to reinforce their negotiating strategies. When it comes to other aspects of the commodity programmes, particularly the effort to increase the share of the Third World in the processing of commodities, the framework of inter-regional collaboration provided by the integrated programme could be of immense value. It is important to realise that the dependence of Third World countries derives from relationships which are enmeshed in the structures of production, marketing and distribution that straddle the Third World as a whole. The growth of transnational corporate power during the last twenty-five years calls for a response from Third World countries which is capable of building up countervailing power through forms of collective action. The integrated programme for commodities certainly provides an opportunity for such a response. It is not impractical to envisage a network of producer associations with a council or federation of producer associations at the apex. It is only within such an institutional framework that the rules of collective bargaining will be observed on a basis of equality between the negotiating partners. Such a framework offers the Third World a realistic prospect of release from the relationships of unequal exchange.

Differentiation and Diversity in the Third World

What is however crucial in all this is whether the national governments of developing countries would be able to work in consonance, adjusting the short-term pressures to the long-term needs and enduring interests of their countries within a framework of collective objectives. To some the prospects are bleak. They would argue that the process of differentiation among developing countries is accelerating apace and the possibilities of identifying a hard core of common interests among them which is significant enough to justify a major collective strategy is fast receding. The divergence of interest has certainly resulted in fissures that run in various directions. The regional and sub-regional groupings in Latin America, Asia, Africa have developed some identity of economic interests which distinguish them from the rest and from each other. The special schemes of preference for developing countries coming under the Lome Convention creates another group of special interests. The fast industrialising countries with export markets in manufactures have a mix of demands and aspirations different from countries which are still largely raw material exporters. The pattern of external relations results in different types of bipolar relationship as in the case of Latin America and Africa. The emergence of the new economic power of oil producing countries has widened enormously the disparities in income and capital resources within the Third World. The least developed countries call for special measures for the relief of their exceptionally disadvantaged conditions. Cutting across most of these groups is the differentiation in socio-economic systems as between countries with mixed or market economies of one type or another and those with centrally planned socialist economies.

Presented in this manner, the heterogeneity is without doubt bewildering and protagonists of collective self-reliance would themselves quail at the prospect of having to contend with this diversity in forging durable structures of economic collaboration on a Third World scale. But as against this we do have the fact of Third World solidarity in many international forums. The resolutions passed by the developing countries in the recent Manila Conference reflected a remarkable expression of solidarity on almost all the major proposals. Nevertheless, the discussion on some of the issues did uncover the underlying divergence of outlook and diversity of economic interests among groups of developing countries when they come to take up positions on specific proposals. One can also conclude that the joint positions did not display the firm will for collective action as distinct from declaration and statement. What would have been most effective for international negotiations was a clear demonstration that developing countries were mapping out alternative courses of action in the event of a major failure in Nairobi. On the integrated programme for example developing countries need to have ready a credible alternative which would enable them to mobilise their own resources for implementing the critical parts of the integrated programme on a unilateral basis. No meaningful reform of the system of international economic relations can take place on the basis of moral motivation or ethical impulse alone. The structure cannot be changed within a donor-supplicant type of negotiation. In the ultimate analysis it is only the growth of countervailing power that can change the structures, and the sooner the Third World realises this, the more effectively would they be able to act together.

Points of Departure for Collective Self-Reliance

The task of identifying the common denominators of interest which can over-ride the diversity in the Third World is not an impossible task. Collective self-reliance cannot be conceived in rigid and sweeping terms which predicate an overall complementarity of development and a comprehensive co-ordination of effort. It can only grow within a more pliable frame where areas of common interest are probed and identified and where they are of such a character that they can co-exist with the hard core of differentiated interest. The UNCTAD programme has suggested various mechanisms and institutional arrangements such as generalised schemes of preference among Third World countries, common financing arrangements, Third World payments arrangements, a framework for Third World transnational enterprise, all of which need to be explored in detail. Other major programmes proposed by UNCTAD—the integrated programme for commodities, the comprehensive framework for the export trade of developing countries in the field of manufactures, the programme in technology with its proposed institutional network covering the regions—all offer points of departure for developing countries to move towards collective self-reliance from different directions. The feasibility of collective self-reliance in the face of the diversity among developing countries can no doubt be the subject of endless discussion and controversy. What has to be done however is to build on the solidarity that has been so often demonstrated through hard systematic work which identifies the concrete opportunities for collective action.

A Third World Secretariat—The Institutional Support

This brings us to the institutional machinery that is needed to perform this task. The idea of a Third World secretariat has been widely discussed in recent years. Proponents of this idea have pointed out that the analysis of issues from the point of view of the Third World, the consolidation of joint positions in the field of international economic relations and the formulation of programmes of economic collaboration which primarily concern Third World countries, all require supportive work of a substantive techno-economic character. As such work needs to be conceived clearly in terms of the interests of the Third World and be clearly disciplined within a perspective which truly reflects the motivations and goals of Third World countries, it would be difficult to carry it out effectively under the aegis of international agencies. The Third World needs its own instrument to undertake the necessary tasks and underpin the negotiations at the political level with a sound technical base. The role of such a secretariat would include some of the functions of an institution such as the O.E.C.D. The Group of 77 in the recent meeting in Manila set up a working group which would develop further the concept of the Third World secretariat. At the initial stages it might be possible to conceive of the secretariat as a well organised small centre of professionals who themselves use the services of a co-ordinated network of leading institutions in the Third World. What is most important is that a beginning be made and a nucleus be formed early so that it could commence work immediately on selected crucial issues that are likely to be the subject of negotiation and discussion in important international forums such as the Non-Aligned Summit and the Commissions organised by the Paris Conference. In several key areas, the concept of collective self-reliance remains a pious exhortation without any clearly conceived ideas which are capable of implementation.

The Manila resolution on economic collaboration among developing countries projects various possibilities which unveil challenging new scenarios for Third World development. These general resolutions need to be given more distinct form and more definite content. One possible approach is to break down some of the grand designs that have been sketched for economic collaboration into clearly identified projects in the field of agricultural and industrial production. The potential of the Third World in capital, natural resources and man-power provides the base for developing new forms of transnational corporate enterprise. It would be worth mounting a systematic effort to develop a framework for Third World transnational enterprise which would give assurance of adequate returns to investors, ensure equitable distribution of benefits and provide for balanced participation so as to avoid relationships of dominance and dependence which characterise the operations of the transnationals of the developed market economies. It would be possible, for example, to identify the potential for transnational enterprise on an interregional scale in the field of food production, processing of commodities, production of industrial goods and shipping. The complementarities of development in Third World economies would have to be demonstrated in a convincing manner. The matching of productive potential in the Third World with investible resources of the oil producing countries would have to be actualised in specific investment opportunities. A great deal has been said about the scope for a programme of development financing which could be based on the rising demand for food and agricultural products in the Middle East on the one hand and the high potential for agricultural production in certain other parts of the Third World on the other. Similarly, the participation of Third World countries in the management of commodity markets through the integrated programme will yield new opportunities for Third World countries to embark collectively on the processing of commodities. What would be the implications of a strategy which enables raw material producing countries to move from the primary to the secondary stage on a phased programme both for exchange in industrialised countries as well as for the markets within the Third World itself? The patterns of Third World development that would be projected could in fact put the technological and economic differentiation among developing countries to optimal use. Input of technology and capital could be coordinated with the availability of raw materials and other factors of production to enable all developing countries to invest in collective self-reliance. Such a plan of action would also offer reliable prospects to OPEC countries to become partners in a dynamic programme of Third World development. The development scene that is envisioned would need bold and imaginative effort if it is to be depicted in convincing detail. Each of the possibilities that have been described require joint investigations in depth which could be initiated best only by an organisation which directly services the Third World. Even if we confine ourselves to a few of these items, the agenda for a Third World secretariat is already a prodigious challenge.

External Linkages in a Strategy of Self-reliance

We have devoted a considerable part of this discussion to a reiteration of the importance of self-reliant collective action by the Third World countries and have tentatively explored the scope for such action. It is important however to distinguish this approach from an isolationist type of self-reliance which bases itself on a drastic process of disengagement from the international economy and moves in an autarchic direction. It has now been commonly accepted that in order to attack the roots of international inequality in the prevailing system of economic relations, it would be necessary to move away from the well nigh exclusive dependence of the existing bipolar relationship between industrialised nations and Third World countries, and develop linkages and economic exchanges within a wider multipolar framework. Fundamental to such a strategy is of course the greater interdependence among Third World countries leading to greater collective self-reliance. The concepts of collective self-reliance have been linked in turn with the reorientation of national development strategies to satisfy basic human needs so as to ensure "a minimum quality of life consonant with human dignity". The recent writing on the basic needs strategy has elaborated on the patterns of growth associated with it. It will create conditions for the growth of a system in which methods of production could be less capital intensive and smaller in scale. Therefore it will also be less concentrated in urban centres and better suited to the demographic situation in these countries. Above all it will be better adapted to their profile of skills and their factor endowments, so as to enable them to generate a self-reliant process of technological development. A system of production oriented to the satisfaction of basic needs of the low-income population will also create opportunities for new trade flows between developing nations encompassing capital goods appropriate to the less sophisticated more labour intensive modes of production, consumer goods which cater to the low and middle income consumption patterns and exchanges of technology which are more relevant to the specific technological needs of the system. The patterns of exchange could be one of the main elements in the growth of collective self-reliance.

This recent emphasis on an international strategy which focusses on basic needs and the elimination of poverty has undoubtedly helped to place the past growth centred approaches within a more profound human perspective and redirect our attention to the central human concerns which provide the ultimate rationale for growth. When this has been said we must caution ourselves against the excesses which usually accompany any such decisive change of direction. The concentration of effort on transformation of the rural sector, the attack on poverty, the emphasis on self-reliant approaches have appropriately moved to the centre of the development arena. This however should not give rise to a type of anti-poverty cult which lowers the sights of the developing societies. It must not contain them in an inward looking strategy which can slow down the transformation of the system as a whole. The proponents of appropriate technology rightly emphasise the need for a process of technological development which leads to the growth of an indigenous technology. In doing so however there is a point at which this emphasis can harm the development process itself. It can result in a development pattern which tends to lock itself into a relatively backward technological seclusion and continues to trail behind the metropolitan centres of the North. This would happen if the economy does not contain dynamic growth points of technology which goes with a virile modern sector capable of continuously pushing the technological frontiers forward. Even in the Chinese experience the concept of "walking on two legs" applied in the field of technology and the pattern of economic development that ensued enabled Chinese society to accumulate knowledge in the most modern and advanced areas.

The balance of the various elements in a pattern of self-reliance must be such that it does not exclude the outward looking linkages with the advanced centres of production and technology. It should be a pattern which does not ignore the immense potential which resides in the accumulated knowledge and capital for which the industrial civilization has been responsible—its potential for dramatically shortening the struggle against world poverty. If the advanced societies were to set apart ~~0.5~~ .05% of their GNP on research and development for the special scientific and technological needs of the Third World it would more than double the current expenditure on Third World research and proportionately increase the stock of relevant knowledge with far reaching consequences for the transformation process on the Third World.

At this point one might counter that these arguments lead away from self-reliance and back again to the old relationship of dependence from which Third World countries strive to release themselves. Placing self-reliance in sharp opposition to dependence might result however in an oversimplification of the development problem. We need to analyse in depth the interrelations between a dynamic external sector and a "basic needs strategy" and examine to what extent they can be mutually supportive. In the last analysis the problem of international poverty is only in an instrumental sense one of capital and material resources; it is fundamentally a problem of technology and knowledge. The vast storehouses of technology and scientific knowledge in the developed world therefore need to be delivered from the bonds of private property and made more freely accessible to the Third World. Viewed against this background, several programmes which are being initiated in UNCTAD attempt to provide as it were the international scaffolding for the "basic needs strategy". They focus on the external linkages of trade and technology which are capable of tapping the vast potential in the industrialised centres for the rapid development of the poor countries and the elimination of Third World poverty.

A final word on the possible patterns of global interdependence which emerge from the new international initiatives that are being taken. The emphasis on collective self-reliance in the UNCTAD programme taken together with the new orientations which the Third World is seeking in its relationships with socialist countries project a pattern of relationships in which international trade flows are more widely distributed and economic power is less concentrated than at present. These changes attempt to move Third World relations away from the present heavy concentration within the present bipolar exchange between the North and the South. The expansion of trade with the socialist countries provides new opportunities for a well articulated programme which could co-ordinate development planning in the socialist countries and the developing countries and makes possible a wide range of complementarities in an important and growing segment of the world economy. The programmes for economic co-operation among Third World countries themselves we have seen unfold prospects for extensive and multi-faceted economic relationships which are reciprocally beneficial.

There appears to be a singular correspondence between some of the configurations of interdependence and the adjustments which Sri Lanka has been making over the last 25 years to diversify her external economic relations. The statistics provided in the Appendix illustrate the dramatic shifts and changes that have occurred in her trading pattern during this period. These changes might be regarded as the socio-economic underpinning of the philosophy of political non-alignment. No doubt many other developing countries have sought a similar diversification of their external relations. These are hopeful manifestations and only confirm that the new international initiatives originate from processes which have already been active in the Third World. The new initiatives attempt to take these processes further within a conscious design in which the diversification of external economic relations have a clearer and larger dimension of development and growth. This scenario of interdependence however critically depends on the firm commitments which the Third World as a whole is ready to make to strategies of collective action.

ADDRESS OF THE SECRETARY-GENERAL AT THE MANILA CONFERENCE

26th January to 6th February, 1976

GAMANI COREA

Mr. President, Your Excellencies, distinguished delegates,

May I say first of all how deeply honoured I am by your invitation to address this Ministerial Meeting of the Group of 77. My pleasure is all the greater in that we are assembled here under the chairmanship of so distinguished a statesman as yourself, General Romulo. Since this is my first opportunity to participate in the work of the Group at its highest level, I should like to express my warm thanks to all the members of the Group for the support and encouragement which they have constantly given to UNCTAD and to its secretariat. A strong Group of 77 is of crucial importance to the success of the efforts of UNCTAD. Let me therefore, at the outset, extend to you my best wishes for a successful meeting, from which the Group of 77 will emerge with new strength and with new dynamism.

May I also convey to you the cordial greetings of the Secretary-General of the United Nations, Mr. Kurt Waldheim, who has asked me to express to you his hopes for a very constructive outcome of your endeavours.

Mr. President, we had the privilege of listening yesterday to an inspiring inaugural statement by H.E. the President of the Republic of the Philippines. His wise and thought-provoking words will be a guide to us all. The warmth of his welcome has been mirrored in the hospitality shown by his Government and by the people of the Philippines, for which my colleagues from the UNCTAD secretariat and I would like to express our very sincere thanks. I should also ike, on this occasion, to pay tribute to Ambassador Brillantes, who presided over the Senior Officials Meeting and who is, as you all know, one of the founding fathers not only of the Group of 77 but of UNCTAD itself.

Mr. President, it has been customary for the Ministerial Meetings of the Group of 77 to take place prior to the sessions of UNCTAD itself and to outline the basic positions of the developing countries in respect of the several issues before each session of the Conference. But it is my view that this meeting is particularly significant and crucial because of the vastly different context in which it is taking place and the great opportunities that are there to be grasped. Since the meeting of the Group in Lima, the world has witnessed major developments which have vastly altered the international scene. One of these is the deep crisis that has afflicted the international economic order as we have known it up to now—the crisis that was reflected in the break-up of the international monetary and financial system and in the emergence of such disruptive forces as inflation and recession in virtually all the industrialized countries of the West. Another major development has been the emergence of the developing countries themselves as a significant force on the world stage—a phenomenon that is evidenced by the greater assertiveness, greater self-awareness and the greater capacity for action of these countries. The concerted action of the oil-producing countries, themselves developing countries, in respect of the price of oil is a manifestation of these changed circumstances and is one of the significant events that have taken place since the last meeting of this Group. These developments have served to create a new awareness of the need for change, of the inadequacy of prevailing structures, and, above all, of the key importance of the development issue as a factor in international relations.

It is these developments that underline the special importance of this meeting. The need for a new international economic order has already been proclaimed by the General Assembly of the United Nations. The basic elements of the new order have in fact been identified, particularly in the resolutions of the General Assembly. It now remains to set about the task of building the new order, of bringing it into being—not of course with one stroke of the pen but through a sustained process of consultation, negotiation and decision-making. The over-riding need now is to proceed from the general to the specific. The General Assembly has indicated in broad terms the directions to be followed, the objectives to be aimed at, and the policies to be pursued. It remains now to concretize these, to translate them into specific actions, to bring about agreements and establish arrangements which give content and meaning to the broader goals.

Mr. President, the fourth session of UNCTAD will be the first major occasion, since the adoption of the General Assembly resolutions, for the international community as a whole to achieve results of a concrete and specific character. This was in fact envisaged by the General Assembly at its seventh special session, which resulted in a consensus to negotiate on specific issues, many of which were referred to the fourth session of UNCTAD itself. The seventh special session generated, it was widely felt, a spirit of conciliation and co-operation, I think it would be true to say that UNCTAD IV will be the crucial test of this new spirit.

Both the need and the opportunity for the fourth session of the Conference to achieve specific results have been foreseen in its preparations. The Trade and Development Board has introduced changes which should contribute to making the Conference a truly decisive event. The session will be of shorter duration than its predecessors. Its agenda has been made more selective. The structure of the Conference will be different. Apart from the Plenary, it is proposed that there should be but one Committee of the Whole which would plunge directly into the task of consultation and negotiation. Particularly important amongst the new arrangements is the decision to convene in Geneva next month a special session of the Trade and Development Board as a pre-Conference negotiating session. It is hoped that the major proposals calling for action at Nairobi will be presented at that session so that no time will be lost at the Conference itself in getting ahead with the task of negotiation. All these organizational changes have implications for the work of the present meeting of the Group of 77; for it is this meeting that should establish the position of the developing countries and formulate their proposals. The more specific and concrete these proposals, the greater will be the prospects for effective action at Nairobi.

Mr. President, I do not wish to dwell at length on the several issues that should come up for decision at the UNCTAD IV. These issues have been well articulated in the report presented to you by your senior officials; all of them are in one way or another of basic significance to the establishment of a changed structure of international economic relations, to a new international economic order. On some of the issues, the action will be of a more immediate and operational nature. On others, the impact will be of fundamental significance over a longer term. But taken together, they add up to a set of changes which, if put into effect, would constitute a major step forward in re-structuring international economic relations.

One of the key issues that will come up for decision at Nairobi is that of commodities. This has been a neglected area in the past and this neglect needs now to be rectified. We have passed the stage of arguing the need for action in this field. We have now to decide what the action should be. The essential question is whether the commodity problem will continue to be approached on the old lines, which have generally proved to be so futile in the past, or whether there is to be a new, purposeful and dynamic approach.

Following the call for an integrated programme for commodities made at the sixth special session of the General Assembly, the UNCTAD secretariat presented a detailed set of proposals on such a programme. After several months of discussion, Governments have now agreed that the stage has been reached for a decision on this programme. The UNCTAD proposal aims at a comprehensive approach to the problem. It sees it not as a problem of a few products, here and there, taken in isolation, but as a problem of central importance to the economies of the developing countries.

Several elements make up the integrated programme. But, as I have said before, the heart of the programme is the proposal to strengthen and stabilize commodity markets over a wide range through a complex of measures which includes in many cases the establishment of internationally-owned stocks of commodities that are of primary interest to the developing countries. The key element of this proposal is the establishment of a common financing fund to make available the financial resources needed for the establishment of stocks. The common fund is, in my view, crucial to the programme as a whole. Its establishment would signify more than a device to economize on financial resources. It would serve as a catalyst for bringing about specific arrangements in respect of individual commodities, since its very existence would encourage and facilitate action. The crux of the matter is that the fund would be the one institution in the commodity field which would be able to take some sort of over-view of the commodity problem as a whole. It would be the one institution where the developing countries would be represented as the producers of a wide range of commodities, an institution which would include in its membership developing countries, such as oil producers, as investors in the fund, and, above all an institution in which the developing countries as a whole would have a substantial presence. I believe myself that a decision to establish the common fund would by itself make a major difference to the prevailing commodity situation and pave the way for far-reaching improvements.

Mr. President, I shall not dwell upon the other aspects of the integrated programme, but I wish to emphasize three points. The first is that the programme is not, as is sometimes assumed, a denial of the case-by-case approach but, whilst it requires the examination of problems on a product-by-product basis, it seeks to do so within a framework which will give strength to the treatment of the commodity problem as a whole. Secondly, the integrated programme does see a role for compensatory financing, but essentially as a supportive measure rather than as a substitute for direct action to strengthen and stabilize commodity markets. Thirdly, the integrated programme envisages that, in a world of continued inflation, the price-setting objectives for individual products must take full account of the need for the constant adjustment of prices to prevent an erosion of their real value. If the Nairobi Conference succeeds in taking a decision on the essentials of the programme, particularly on the need to establish stocks and to create the common fund, it will be necessary to launch parallel negotiations regarding the modalities pertinent to each of these objectives.

I feel, Mr. President, that in the commodity field—as indeed in many others—the key to success lies in the will, the determination and the strength of purpose of the developing countries themselves. If the developing countries get the message across, clearly and strongly, that they consider changes in this field to be basic to any reordering of international economic relations, if they back up this conviction with a strong assertion of their capacity and their willingness to commit their own resources toward this end, then I do not see how their wishes could be ignored by the world at large.

Mr. President, action in the field of commodities must be paralleled by actions in other fields. In the area of trade in manufactures, we have proposed a programme of action of a comprehensive character which looks beyond the objectives in the field of access to markets, which are currently being pursued in the multilateral trade negotiations, towards action which encompasses the major implications for trade that are inherent in the ambitious goals that have been set by UNIDO at Lima for the industrialization of the developing countries. In the area of the transfer of technology, UNCTAD IV is called upon to take new initiatives relating to a code of conduct on the transfer of technology, to the revision of the international patent system and, more fundamentally, to the enhancement of the technological capacity of the developing countries.

There are likewise major issues in the field of money and finance. The problems in this area are now acquiring major dimensions. If not tackled successfully, they cannot but disrupt the development process. The dimensions of the external debt problem of the developing countries are becoming particularly severe. The need for action in this field at Nairobi was underlined by the General Assembly at its seventh special session. This is another field in which the old approaches stand in the way of solutions. They need to be radically altered and the Conference must agree on effective measures to reorganize the debt of developing countries. Indeed, this is one field in which the decisions of the Conference could have an immediate operational impact. Likewise, there remains the problem of how to finance the massive payments deficits in prospect for most of the developing countries, both currently and in the years immediately ahead. While, some of the measures decided upon recently at Kingston are helpful in this context, they clearly do not go far enough. There is a need to proceed further and this too is an issue to which the Conference can contribute. Most basic, and linked to these problems, is the need for the reform of the international monetary system. The current system, and the way it has developed recently, simply does not satisfy the needs of the developing countries—the need to be major beneficiaries of the accretions to international liquidity, the need for additional resources to help adjust to payments difficulties, and the need to have a greater voice in the formulation and management of a new and truly universal system. The current impasse in respect of the long-term transfer of resources needs similarly to be broken by the establishment of new mechanisms, more dependable and more effective than those prevailing today. A reformed monetary system can certainly contribute towards this end.

Mr. President, a new economic order, a new framework of international relations, would need also to radically modify the present bi-polar relationship which ties the economic fortunes of the developing countries so closely to those of the former metropolitan powers. This is a legacy of history which needs to be transformed by the dynamics of change. The socialist countries offer a great and growing potential for new directions in trade and other economic relationships as they themselves transform their productive capabilities. Existing trends in this field can be vastly accelerated, but they too require new orientations and new actions.

Most important of all is the need to strengthen exchanges and build up links between the Third World countries themselves. This is perhaps the area of the greatest potential for the future, one which would give expression to the whole concept of collective self-reliance. We cannot rest assured that these links will develop sufficiently rapidly if left to the spontaneous operation of market forces. They need to be forged consciously and resolutely by sweeping away existing obstacles and establishing new facilities. There is a need to build a coherent framework that embodies the concept of cooperation among developing countries, a framework that encompasses action on both a regional and a global scale. The growth of collective self-reliance and co-operation amongst developing countries can be the major event of the last quarter of this century. It can in fact be the decisive element of the future economic order. The subject of co-operation among developing countries is on the agenda for Nairobi but the content of action in this field, including specific mechanisms, would need to be determined by the developing countries themselves and presented to the international community as an integral element of any global strategy for development. The present Ministerial Meeting could, by adopting the basic elements of a specific programme, initiate a major thrust in this field.

Also on the agenda for Nairobi, and cutting across all the other substantive issues, is the problem of specially disadvantaged groups of countries—the least developed countries, the land-locked and the developing island economies. Their problems have been one of the concerns of UNCTAD and the fourth session of the Conference can do much to give a new impetus to the measures needed for dealing with these problems.

Mr. President, UNCTAD IV will also deal with the institutional question—the question of the future role of UNCTAD. Here, the Conference has a major opportunity because this issue is one of more than usual significance in the context of the consideration that is now being given to the restructuring of the United Nations machinery in the economic and social sectors. It is my belief that UNCTAD has a new and crucial role to play in the new setting. As I see it, UNCTAD with its specialised concerns and its expertise, should evolve into a major instrument of the United Nations in the field of trade and development—indeed in the field of international economic co-operation in its widest sense. It is true that UNCTAD, when it was first constituted, was viewed as a body both for the generation of new thinking and for the negotiation of specific issues. There is much that UNCTAD has achieved, and much also that it has hitherto failed to do but few will deny that its influence has been pervasive, extending well beyond its own forum. In the new context, UNCTAD must continue its dual role but there needs to be a new emphasis on its negotiating potential—an emphasis which would require changes in its stature, its machinery and its organizational structure as presently constituted, UNCTAD IV has the opportunity of taking major and far-reaching decisions in this field. The Ad Hoc Committee on the Restructuring of the Economic and Social Sectors of the United Nations System has been enjoined by the General Assembly to take account of the recommendations of the Conference. I believe myself that those recommendations would be crucial to decisions of that Committee on the restructuring of the United Nations machinery as a whole.

Mr. President, many of the substantive issues coming up for decision at UNCTAD IV would also figure on the agenda of the Paris Conference on International Economic Co-operation. I have on previous occasions stressed that it is vitally important that these two Conferences should be harmonized and mutually supporting. If it were otherwise, the prospects for both would be jeopardized; but if, on the other hand, relationships between the two were established, the results could indeed be beneficial. It is one of the stated purposes of the Paris Conference to facilitate decisions in other bodies. The

Nairobi Conference will provide the first opportunity to give effect to this goal. The Group of 77 has both a responsibility and an opportunity in this connection. The mandate for the developing countries to be fashioned here in Manila would, I have no doubt, be of decisive importance for the position taken by developing countries in all forums in the coming year and even the period beyond.

If I were asked, Mr. President, to point to a major difference between the forthcoming Conference and its predecessors that could be of relevance to its eventual results, I would single out the vastly enhanced capacity of the developing countries not only to draw attention to, but to secure action on their major demands. For the first time, perhaps, the developing countries will be participating with the rest of the international community as a major actor on the world's stage, one with capacity for action. This is true in the field of commodities, as it is in other fields as well. The most potent instrument of the developing countries is their unity. But in the present context, this unity needs to extend beyond agreement on general goals and objectives and to be converted into consolidated and harmonized negotiating positions on specific issues. Whatever differences remain must be resolved. This is a challenge to the skill, expertise and sense of purpose of the developing countries themselves, and it is a vital need in the present context. It is perhaps the one over-riding factor that will make the difference between failure and success.

UNCTAD IV AND ITS IMPLICATIONS FOR SRI LANKA*

H. A. De S. GUNASEKERA

UNCTAD has performed the role of catalyst in organising the efforts of developing countries in their legitimate demand for a new international economic framework based on the freedom, independence and sovereignty of nearly 150 nations of the world. During the course of history, international economic systems have been largely the creation of a handful of nations which had the military power and the economic power to impose their will on smaller nations. That age of Empire has gone. We live in a more democratic era—in an age of the common man. It is true, both of individual nations as well as the entire community of nations.

Decisions taken by a few are being superseded by decisions taken by the many; in other words, by the vast majority of nations representing mankind, both rich and poor. UNCTAD has played a crucial role in providing points of focus in the long struggle to achieve a desirable international economic order, particularly for the developing countries. In terms of the history of organisations, UNCTAD is still a very young organisation. Its task has only just begun.

What we see today in the form of demands for the establishment of a new international economic order is nothing less than the demand of the depressed and oppressed nations of the world for a framework of laws, rules and regulations governing the international economic system. Over the years, the task of building up a system of law and

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institutions within each nation has been tackled fairly and satisfactorily. This has eluded mankind, however, in the international context. We see today the stirrings of a movement to provide a global apparatus of law in various spheres. In the political sphere we have the rudiments of a system of international law. There are institutions to conciliate and arbitrate on matters in dispute between nations. In the economic sphere we are now in the midst of formulating a corpus of accepted rules made by the parties concerned and not formulated for them by others. The weakness of the international economic system which emerged after the last World War lay in the fact that it was the product of the efforts of only a few countries. I think it is generally agreed that the global economic system, the decline of which we are all observing, has served the world to some extent in that it ensured an expanding world economy, during at least a part of its time. The benefits of this expanding world economy were however concentrated among a few countries. While it is important that we ensure economic expansion, we also need a system that will include in it elements of a proper and just distribution of the benefits of such expansion. It should also maintain the language of priorities, which will eliminate the wasteful features of the affluent society.

Concern with Life Styles

The debate on the establishment of a new international economic order takes place at a time when there is greater consciousness of the relationship between man and nature. The entire question of the Environment which was so lucidly elaborated during the proceedings of the Stockholm Conference was nothing less than a clarification of a new relationship between mankind on the one hand and natural resources on the other. The old economic order had no conception whatever of any "limits to growth". Science and technology may have the means to tackle the questions arising from the depletion of non-renewable resources but that is not the whole of this problem. There is also the quality of life. The question of life styles is now increasingly the concern of both developing and developed countries. Conservationists the world over are involved in working out hypothetical life styles which can be sustained by mankind without reducing the quality of life. I consider this a particularly appropriate exercise for the developing countries as they obviously cannot imitate the patterns of conspicuous consumption of the affluent countries.

Moreover, the developing countries have to provide the jobs for large numbers of their increasing populations at a time when they are faced with a severe scarcity of capital resources to provide the wherewithal for employment-creation. The subject of Science and Technology is a major area which will concern UNCTAD IV and I would think that this most appropriate field should be considered by the developing countries in the context of their concern with life styles, employment-creation, income distribution and integrated rural development for the developing countries. Only then will it have a significant meaning for the vast majority of the poorer populations of these countries.

Commodities Crucial

A major area of UNCTAD's concern is that of commodities. This is one of the key development issues of our time. The role of commodities in the economic development of the developing countries is crucial and UNCTAD's continuing interest in this subject is most welcome. As a result of the recent energy crisis, there is a greater awareness among both developed and developing nations of the importance of commodities in correcting the imbalance that exists between the North and the South; between the "North" that represents the world's developed or industrialised countries, and the "South" which encompasses the less developed countries, ranging from the newly rich but non-industrialised members of the OPEC, to the poorest and least developed countries of Africa, Asia and Latin America. The potential exists for the countries of the Third World to obtain greater resources through commodities. This is clearly shown in the fact that a 10% general rise in price in real terms for commodities exported by them will more than exceed the total resources flows in the nature of official development assistance (ODA) which they now receive from the developed countries. UNCTAD's integrated programme on commodities is an imaginative approach to this question. In the international sphere, it obviously takes time for this sort of radical and innovative approach to be implemented. It requires a political will the dimensions of which we have not so far witnessed in the global dialogue that is now taking place.

It is therefore appropriate that UNCTAD is pursuing its ongoing work on individual commodities so that such a disaggregated approach could ultimately result in an aggregation of principles which could ultimately be formulated into a General Agreement on Commodities. I would consider UNCTAD's proposals for a Buffer Stock Scheme and a Common Fund to finance such buffer stocks as being within the power of developing countries to bring about. It is most important that in international bargaining the developing countries should consistently and continuously foster and strengthen its growing solidarity by the establishment of mechanisms for this purpose. The Dakar Conference on raw materials constitutes in this context an important landmark in the history of relations among developing countries. We should now pursue the achievement of those good intentions expressed in the Resolutions at Dakar through the negotiation of substantial agreements at UNCTAD IV. Our own Minister of Finance speaking at the 7th Special Session of the United Nations, made an imaginative and realistic proposal when he suggested the use of gold in the IMF reserves, which are now ear-marked for disposal, to finance the Buffer Stock Scheme, as enunciated by UNCTAD. I would like to bring this proposal to your attention. If the developing countries are prepared to set apart a portion of the funds accruing to them through gold sales, the UNCTAD Fund for the financing of buffer stocks could easily become a reality very soon.

Before I leave the subject of commodities, I should like to refer briefly to the commodities of interest to us in Sri Lanka. Two of the five commodities isolated by UNCTAD for early action under the Programme, namely tea and rubber, account for 2/3rds of Sri Lanka's export earnings, and the Programme is clearly of as much importance to Sri Lanka as to any country in the world. In this context, let me refer briefly to our own experience.

Firstly, how have the earnings from Sri Lanka's exports of tea and rubber behaved over the last decade, or so?

In terms of export quantity the answer is easy. From 1962 to 1974, for example, exports of tea fell by 10% and those of rubber increased by 27%. Fluctuations in export quantity were small: 3% and 6% about their trend values for tea and rubber, respectively.

How prices moved is far harder to determine, and depends on how they are measured. If we look at rupee prices we obtain the very pleasing answer that the price of tea increased by 39% and that of rubber by 102%. If we use the now familiar dollar/SDR price, the answer is less satisfactory: a fall of 18% for tea and a rise of 20% for rubber.

This, however, does not indicate how the purchasing power of our two major exports fared over the period. Our exports ultimately are only of benefit to us because they permit us to purchase imports, and our export prices can therefore only be meaningfully expressed in terms of import prices. Standardised by an index of import prices, we see that real prices of tea and rubber in fact fell by 71% and 58%—dramatic falls by any standards particularly when it is realised that the figure for tea represents an average compound rate of decline of 10% per annum.

It might be thought that by taking 1974 prices I have over-estimated the extent of the decline. This is true to some extent, but the real price of tea had already fallen to just 42% of its 1962 value in the more normal conditions of 1973. Rubber was not far short at 47%.

Compared to this decline, fluctuations in price have been small. For tea, real price has fluctuated by an average of less than 6% about its trend, rubber by about 9%.

When assessing the relevance of commodity policies in Sri Lanka, the nature of past price movements and likely trends must be kept constantly in mind.

In talking of price movements, I have, talked as is conventional in quantitative terms about long-run price trends and short-term fluctuations. This leads me on to the second aspect of commodity earnings which I would briefly like to touch upon.

Implicit in most of the recent international resolutions pertaining to commodities has been an acceptance of the need to change the terms of trade in favour of the less developed countries by increasing the prices of the commodities which they export compared with the prices of the goods which they import. Yet this resolve has invariably manifested itself in proposed measures aimed at the reduction of commodity prices fluctuations rather than at the long-term increase in price.

Take for example the Interim Report of the Commonwealth Expert Group—The McInture Report. The Report sets out eight general principles which it considers could be applied in working out a detailed commodity policy. Seven of these are directly concerned with or would result in raising the real value of commodity exports; one is concerned with commodity price stability. Yet in the discussion of possible measures, the Report devotes three pages to issues of stabilization, one page to indexation which they see at best as a means of maintaining the real value of commodity exports, and makes no mention whatsoever of increasing the real value of commodity exports. This is certainly inadequate for the developing countries.

The issue of commodities has several dimensions to it. It is on the production and export of these commodities that we in the developing countries depend for our external resources. It is in relation to commodities that the IMF, the IBRD and the various forums of the United Nations have taken up the question of compensatory financing. There have been notable developments in this sphere. I would, however, consider the initiatives so far taken to provide the necessary compensation for the poorer developing countries to meet their day-to-day commitments as being inadequate for the achievement of even extremely limited goals. The balance-of-payments of the developing countries have deteriorated to an extent that the poorer countries are now facing problems of a magnitude which threaten their very survival. At this point it is relevant to question the criteria adopted by the IMF in determining the grant of balance-of-payments assistance. Much has happened since the Breton Woods pioneers talked of "fundamental disequilibrium".

UNCTAD's latest proposal for the creation of a further oil facility is most opportune. Time is however of the essence. There should be a sense of urgency in pursuing a proposal like the Development Security Policy. These are areas of international action which brook no delay. The 6th Special Session of the United Nations identified a programme of action to benefit the most seriously affected countries. Within the last two years, there has emerged a 4th World of Most Seriously Affected countries of not less than a billion people, nearly one-fourth of mankind. In all the proposals of UNCTAD for commodities and for the improvement in the terms of trade and increased resource flows, priority attention should be diverted to this one-fourth of the world's population. It is an unfortunate fact that South Asia is the region that has suffered most as a result of recent international economic development. The Fourth World is not far away from us. It is very much here with us on our door-step. It is also an unfortunate fact that some of the poorer countries are not necessarily countries which have economic significance to the developed countries. These poor countries are not always well endowed in essential raw materials like oil. They are in fact even short of the most basic of commodities such as food. Their per capita incomes are so low that they do not constitute major targets for direct foreign investment of the developed countries. They do not also provide substantial markets to be provided with special schemes of assistance from both the developed and the richer developing countries, motivated largely by a humanitarian purpose.

One of the encouraging features in this regard is the recent so-called "poverty orientation" in the aid policies of developed countries so that such policies meet better the needs of the poorest countries. I would consider that commodity and aid policies of developed countries so far as they affect developing countries are complementary rather than exclusive of one another. Improved prices for commodities would ensure that benefits accrue mostly to the richer developed countries particularly those countries rich in the production of metals and minerals. I understand that at the recent 7th Special Session of the United Nations, indexation was being thought of only in terms of the export prices of metals and minerals and not of prices of agricultural commodities. Aid policies can be oriented in such a fashion that their main thrust is directed towards poorer developing countries which cannot benefit from immediate increases in the price of commodities they export. I would like in this connection to refer in particular to the interesting developments under the Lome Convention. There are elements in this Convention which are certainly useful in establishing an improved relationship between developed and developing countries. Unless conventions of this nature are globalised they are bound to constitute areas of friction among the developing countries themselves. The solidarity of the developing countries is now sufficiently strong to identify their mutual interests so that it is not possible for the developed countries to weaken this solidarity by preferential arrangements which could tend to be to some extent divisive.

In Aid policy we have long referred to the Pearson target of 0.7 per cent of GNP being diverted by the developed countries as O.D.A. This target has not been achieved. It is still around 0.3 per cent.

I would like to raise the issue here whether it is not possible at least to get the developed countries to divert that amount of resources which they would be obliged ideally to channel to the poorer developing countries if they work on the basis of a global .7 per cent target. A global .7 per cent target would involve an increase of more than U.S. $10 billion from present levels—more or less a doubling of aid levels. But if one considers only poorer developing countries as an urgent target, and with only half the population of the developing countries living there, an increase of aid by U.S. $5 billion might meet their urgent demands.

I think that we should particularly address ourselves to issues which should be raised at the proposed UNCTAD Conference to mitigate the debt burdens of poorer developing countries. In this connection, it has to be borne in mind that all foreign aid, compensatory financing, the Oil Facility, the Third Window are at most stopgaps until very fundamental solutions are evolved. In the search for fundamental solutions, it is necessary to identify the causes of the present crisis. Amongst these causes, two stand out prominently, i.e. world inflation and cartelisation. Indeed if developed countries control their inflation about half our problems will be solved. The establishment of an automatic link between additional real resource transfers and increased international liquidity is another area for priority action. The reform of the international monetary system concerns UNCTAD intimately as the climate for development is grievously affected by the vagaries of monetary relationships.

Although the prospects for Trade and Economic Co-operation among developing countries are enormous many of us have been content merely to pay lip-service to the idea. There are complementaries in our economies which lend themselves to a greater degree of integration in trade, in shipping, in industrialization and several other fields. What is necessary is the political will to break through age-old prejudices and develop flexible economic policies to meet the new challenge of our times.

THE CHANGING INTERNATIONAL ECONOMIC ORDER AND UNCTAD IV*

LAL JAYAWARDENA

I should like to take literally the thrust indicated by the title given to my address. This is, "The Changing International Economic Order and UNCTAD IV", and it carries with it the important implication that UNCTAD IV ought to be a very different kind of animal from previous UNCTADs, and that this has something to do with the course of economic events in the last few years. If that is what is expected of me—and I have chosen to interpret that unilaterally—then I think it would be important that we try to take stock of what previous UNCTADs were about, what they tried to do, and what they succeeded in doing. I suspect I was called upon to discharge this particular role because in one capacity or another I have had a great deal to do with all those UNCTADs, first as a staff member right at the beginning, and subsequently in various national capacities. But I think it is important to get an appreciation of what happened in the past before we go to UNCTAD IV.

UNCTAD's Old Goals

As far as what I may call the old goals of UNCTAD were concerned, there were really three elements that deserve mention. The first of these has been the focus on what has been called the trade gap of developing countries. I remember at UNCTAD I this stood at something like 20 billion U.S. dollars. In other words if by 1970, and UNCTAD I in 1964, the international community could not come up with a combination of trade and aid measures that would transfer

* Paper presented at the Sri Lanka National Seminar.

the equivalent of 20 billion dollars to developing countries, then the growth target for that particular development decade of 5% per annum growth in the GDP could not be realised. That was the first major premise of UNCTAD, of all UNCTADs in the past.

The expectation—and this is the second element for bringing about this transfer—was through a sort of gentle process of persuasion. I do remember the sort of intervention that Dr. Prebisch used to make in UNCTAD in those days. His main burden was that all of this was going to be costless to developing countries. That 20 billion gap really did not require even the 1% development assistance target which we now have; and in terms of the thinking of that time it really required no more than one-tenth of the 1% of the increment in the demand for commodities exported by developing countries to developed countries. In other words, if barriers had been reduced to permit of the absorption by developed countries of as little as one-tenth of 1% of incremental exports of developing countries, then this, together with some modest assumption about aid, would have done the trick. So the task in the thrust of all the appeals in the past was, "this was going to cost you chaps very little indeed".

And the third element that characterised those discussions was that when developing countries backed Dr. Prebisch in this kind of appeal they were told, "go ahead and mobilise domestic resources". So it became a sort of ding-dong match. The developing countries were asking for something very little indeed and the developed countries were saying, "Really we cannot give you whatever mess of pottage you are asking for; go ahead and put your own houses in order and then you will really be in a position to benefit from a better trade regime". So those three were the goals that UNCTAD I, UNCTAD II and UNCTAD III in one way or another developed.

The Results—UNCTAD I

I have only used illustrations of UNCTAD I. Now for the results of UNCTAD I—Whenever anyone asks for something by way of assistance to the Third World, they usually get an institutional framework—a committee or a set of committees. So that was what happened in UNCTAD I. A new mechanism was born; there were jobs for the boys; some of them were good, some of them perhaps not. Anyway within that framework you had a set of studies. That is the second sort that gets thrown to developing countries when demands were made, and these studies were enormously useful and helpful.

Let me list just two or three of them. The very first one which comes to mind was the study of the state of developing countries in international monetary reform, and that really was the first occasion when the famous link that Prof. Gunasekera talked about came into international attention. It was an expert group convened by Dr. Gamani Corea, then my boss and now Secretary-General of UNCTAD, which gave birth to this notion of the link but drawing again on ideals that were turned out before—2 or 3 years before that—by one or two academics.

The second idea that was tossed out at that time was the notion of general preferences. People had been accustomed to the idea of Commonwealth preferences, i.e. preferences granted to a particular grouping of countries, and the idea was that these should be generalised and made available on an across-the-board basis to all developing countries—a tariff cut across the board to every developing exporter.

The third idea—and this is relevant in the context just mentioned by Prof. Gunasekera—was really Dr. Prebisch's version of Dr. Kissinger's "Development Security Facility". But the basic idea was the same. When developing countries draw up their plans they are obliged to take a view of two things—a forward view of their export earnings and a forward view of their aid expectations. In the imperfect world we live in there is nothing very much you can do about aid except live with it on an annual basis. As far as exports were concerned, the idea at that time was to give an insurance, so to speak, to the export expectations underlying a development plan. If those export expectations were unfulfiled, then the plan itself would have to be scuttled, and that was the idea which was subjected to intensive study. And for reasons I shall come to subsequently, it was an idea which remained still-born until Dr. Kissinger chose to give it a modern dress and a new name called "The Development Security Facility" designed to meet precisely the objective that Dr. Prebisch then had in mind. So these were UNCTAD I's ideas that were on the agenda for study.

—UNCTAD II

UNCTAD II was a failure basically. It was such a failure that Dr. Prebisch quit; he gave up. One of the things he was pressing for at that time which I have alluded to—the Supplementary Financing

Scheme which had been studied to death between UNCTAD I and UNCTAD II—was abandoned for lack of the necessary finance. The question of preferences was taken a stage forward, a firm commitment was made on principle but no action yet; the action took place between UNCTAD II and UNCTAD III, and that action again can be viewed as not being in any way a real concession to developing countries. The sorts of qualifications made to the application of the principle of general preferences were such that it could be argued that no major burden or adjustment was imposed on the developed countries that were called upon to absorb imports from the developing countries. There were certain cut-off limits to exports that could be permissible. So preferences was no real gain and supplementary financing was a "dead duck".

—UNCTAD III

As far as UNCTAD III was concerned, the emphasis moved to a slightly different area. If developing countries could not at least get the sorts of minimal things they were asking for, then perhaps they might be allowed the luxury of rubbing shoulders with the people who were taking the decisions. Decision-making internationally became the major focus of UNCTAD III, and that in the specific context of international monetary reform. As many of you will be aware, international monetary reform in those days consisted of 10 countries sitting round a table taking decisions on matters put to them and then placing them before the rest of the world community as a *fait accompli* which would then be dutifully endorsed. What we did have—and this is where UNCTAD contributed the major political thrust—was what came to be called the "committee of 20" (i.e. the 10 developed countries, one make-weight developed country, Australia or New Zealand, and 9 developing countries) who were then permitted the luxury of sitting in one room to take a view of international monetary issues that would hopefully have taken the interests of developing countries into account. So, the major breakthrough of UNCTAD III in Santiago was really the permission, if you like, for developing countries to take part in a process of decision-making on vital matters—international monetary matters—which hitherto had been the prerogative of the rich countries. How successful that particular piece of institutional machinery was I shall come to in a moment. By that time the link issue which had been started up in UNCTAD I had matured considerably. A great deal of work had gone into it in the UNCTAD secretariat and in the Fund. But instead of getting the link at that point we got a committee.

Dangers of First Three UNCTADs

So that sums up the results of the first three UNCTADs, and in trying to look around for a way of doing that better than I have done, I was driven to something which was presented to the 7th Special Session of the General Assembly by an outfit called the Dag Hammarskjoeld Foundation. This is a group of independent researchers working under the auspices of a foundation set up in the name of the first Secretary-General of the United Nations, and this is what it says which the Third World must avoid in the future. It says that the Third World must avoid the institutionalised mendicancy, the danger of the first three UNCTADs, the illusion of paternalistic partnership without tears, the real nature of the Pearson Report and the real danger of the World Bank's pressing theme of redistribution with growth and the sterile construction of desirable year 2000 models without specifying concrete initial steps and subsequent sequences for moving towards them as exemplified in the Lima Charter of UNIDO. This, in capsule form, is an indictment of fast approaches to the question of international economic diplomacy, whether in UNCTAD or elsewhere.

The Role of UNCTAD IV

This brings me, to the new role that I think—and this is a personal view—would be expected of UNCTAD IV in the context of the changing international economic order. This role I think, is again having three major elements. In a large measure—and this is my first point—the problems are unchanged except in magnitude and in composition. Let me go back to magnitudes first because this is important to get a focus on the new thrust that is required.

Dr. Prebisch's 20 billion dollars for 1970 has now become 100 billion dollars for 1980. This is the latest UNCTAD projection, and 100 billion dollars is what one needs by way of overall resources—trade and aid taken together if the new Development Decade target of 6% per year is to be achieved—6% against the 5% for the previous decade. This 100 billion—and I am going on the basis of the projections I have seen—means something really like 60 billion in 1974 dollars. The way these things are done is that you work with base year magnitudes and values and make an adjustment for inflation. So while the 100 billion compares with Dr. Prebisch's 20 billion if one is looking at it from today's standpoint, it is in the order of 60 billion. And in this game of projections a number of outfits are involved and UNCTAD's efforts are complemented by those of the Bank.

Before I get to those details I think one important thing that stands out is that the 100 billion is not the sort of figure that can be met by aid efforts alone, and that is the basic point—the difference between the future and the past. That 100 billion amounts to something like 1.3% of today's projected GNP of the developed world in 1980. It also amounts to something like .7% of their GNP by way of official development assistance. This is the point of the .7% target we were talking about, and what Prof. Gunasekera referred to as not yet achieved, which was to be achieved last year and which is only achieved to the extent of .3%. The argument here is that if by 1980 developed countries must set up their will and effort and get the .7% they will have discharged their official assistance obligations 5 years late no doubt, but discharged them leaving the balance over for trade measures. But if you again take the realistic assessment—and then you have to go to the World Bank for their in-house studies you will find that there seems to be no hope whatever of getting that .7%. Their projections in fact imply a decline from todays .3%, which Prof. Gunasekera mentioned, to something like .29% in 1980, and if this 60 billion that I talked about in 1974 prices is to be the focus of thinking, for a moment let me switch to that now.

We can find that 30 billion of that are within sight by way of plans that that country also already has for aid transfers. Another 30 billion has to be found, and this 30 billion translates along with that proportion of the 30 billion already found which is imputed to the developed countries. Let us say 47 billion is the total I am hoping for; that 47 billion will require something like 8% of that GNP by 1980 in order to be fulfilled. In other words, when you look at this problem in terms of constant price relationships or current price relationships, if you rely on additional aid for this Development Decade target of 6%, the answer is that aid is not going to be forthcoming.

Trading with OPEC

So, developing countries have really got to be thrown much more on their own resources on seeking to widen their trading opportunities than was really the case with any of the previous UNCTADs. In considering the trade efforts I think there are two things that could be highlighted to supplement what may reasonably be expected and these two consist in relationships which the Third World might forge with the OPEC world. The estimates are of this order and they come again not from UNCTAD but from Bank sources. Today OPEC absorbs something like 6% of developing country exports. If that 6% were to rise by 1980 to something like 9% of developing country exports, then it can be argued that the 100 billion dollar gap can be bridged with the sorts of aid that on current expectations OECD developed countries look like coming up with. This particular access to OPEC markets has to be married with a reduction in trade barriers of the developed countries which could add another 12 billion. What has happened here is that many of the developed countries have mounted plans for domestic protection in order to safeguard their temperate crops and if barriers on items such as beet, sugar and cotton are lowered between now and 1980 the estimation is that developing countries can gain something like 12 billion because they have the capacity to export these products and develop that export potential. So the two areas of trade which have come up in current studies and will supplement an aid effort which is not in sight really are trade with OPEC countries and a reduction in protectionism in the developed world.

New Directions for Aid Effort

The second area in which one sees a new role for UNCTAD consists in the fact that the developing countries today are a much more variegated lot than they were in 1964. Some of them are really on the verge of having achieved developed status. This applies mostly to the Latin American countries who have enjoyed a period of export-led growth. The real problem concerns this Fourth World of ours and that consists really, apart from Sri Lanka, of Bangladesh, India and the Sahel. I was told a story that they would soon be joined by a fifth, and that is the United Kingdom! And the reason for that is that many of the boffins or buffoons who run these places have had their original training in places like the London School of

Economics, or Oxford or Cambridge or what have you. But let that pass. Anyway, because this problem of developing countries is now more variegated, the thrust of the aid effort can correspondingly be altered also, or such aid as one can expect. In terms of World Bank constant price projections I was talking to you about a while ago, an addition of 30 billion dollars in 1974 dollars needs to be found between now and 1980 if this 6% target is to be supported. Of that 30 billion, the requirement of the poor lot of them is not more than 1½ to 2½ billion dollars annually. This gives the direction in which the aid effort is moving, but it is not really clear whether one can rely even upon the aid effort to deliver that much. So these countries have the opportunity of really working out new trading relationships of the kind which I will come to in a moment and which I have just alluded to also.

Power Behind Demand

The third element in this new role for UNCTAD extends really fundamentally from the retort that the developing countries gave to the call of previous UNCTADs to mobilise their domestic resources. One group of countries—OPEC—took that call quite literally, and when they mobilised their resources all hell began to break loose, and it is this action which has really created a possibility for serious bargaining and negotiation by developing countries, and in my view it is this which accounts for the revival in modern dress of lots of ideas which did not get off the ground in previous UNCTADs but which when developing countries have effective power to back their demand, in a context where effective power backed their demand, the whole picture does change. And I would like to go back here again to the Dag Hammarskjoeld Report, which I think ought to enjoy wide circulation here, to say exactly what I think it ought to mean. In talking of collective self-reliance they say: "This concept requires will, capacity and power. Will includes not simply desire for change and a vision of a desirable new economic order. It must include a clear conceptualisation of what measures and sequences are necessary to begin serious progress. Capacity includes the ability to work out strategies and policies and to formulate the institutional or bargaining processes necessary to bring them into being. Power is probably the element in which collective self-reliance can offer the greatest advances beyond national self-reliance and these are the key points".

It involves the capacity to offer real benefits and to impose real sanctions. Collective self-reliance must be backed by a potential for confrontation damaging to the industrial economies as well as by a potential for providing new relationships of positive value to them. In other words, we are now in the territory of negotiated interdependence, of negotiation from strength, and this is I think the key task of UNCTAD IV. If one looks at UNCTAD IV in this light, I think, it has implications both for the content of UNCTAD and for the form of UNCTAD. I do not propose to undertake a *tour d'horizon* of the content of UNCTAD because that might take me beyond my allotted time limit. So I shall try in the available time to telegraph as quickly as possible the broad areas of concern on which I think UNCTAD IV might focus.

These four areas are commodities; other forms of Third World Co-operation—and this is the real meat of collective self-reliance; in development finance which is standard UNCTAD territory but in my view in the future ought to be marginal UNCTAD territory; and finally monetary issues which really create the framework in which economic growth compatible with self-reliance can proceed. These are the four broad areas that I wanted to flag briefly, but let me focus a little more precisely on commodities to begin with.

Commodities

As I have just indicated, the current concern with commodities is really nothing more than a compulsion, if you like, to take seriously the concern of developing countries when they begin to argue from a position of strength. And what this particular OPEC action has created for it is a new set of opportunities. The idea was not new. As long ago as 1942 came such a concocted scheme for a separate agency for administering buffer stocks. This lay hidden in the British Treasury archives for a good long while. Dr. Prebisch tried to find it, but by some curious accident I came across it, and what we now have in UNCTAD really in terms of this integrated commodity programme is nothing more than a detailing out of that particular scheme. But what is new here is the political opportunities that have been created which was absent in 1942, and briefly there are three sets of opportunities which I would like to flag.

Three Sets of Opportunities

The first is the possibility of trading off the concern of developed countries with assurances of supply with the concern of developed countries to have reasonable prices. The points of excessive prices can be self-defeating because they promote and accelerate the process of substitution which will leave commodity producers more vulnerable than before. So developing countries and developed countries have a mutuality of interest there in going for reasonable prices.

The second opportunity that the new situation creates is that developing countries are both exporters and importers of commodities. As exporters they would like higher prices. As importers they would naturally want lower prices, and if one is bargaining for the collectivity of the Third World when their common interests rest with not so much cartelisation but a reasonable level of pricing which is what really the buffer stock mechanism seeks to provide.

The third opportunity of course is that one can raid the OPEC cities. The money is there which was never ever possible before. UNCTAD has done a number of calculations on this point and they, I think, frightened the world community to begin with by coming up with a list of 18 commodities which would require prior stabilisation costing something like 10.7 billion dollars, which is really about the magnitude of the total aid flow on official account which Prof. Gunasekera referred to. They have since scaled down that particular estimate to something like 2 or 3 billion, and that implies scaling down of the commodity list from 18 to something like 10. The importance of scaling them down in this way is that you can have a scheme where developing countries would go it alone. In other words, if you start with a smaller corpus of commodities and work out a sort of arrangement which indicates to OPEC countries that they have a mutuality of interest in supporting such a scheme, then I think one can get to UNCTAD IV with a scheme which is already pre-negotiated and worked out and the developing countries will be in a situation where the rest of the developed countries will have an incentive to join. What I think I have in mind is not a cartel scheme but a realistic scheme to stabilise commodities at prices of about 1974-75 before the peak of the boom and which would be in the interests of OPEC countries to support, and it is this area of interest, I think, which UNCTAD ought to be exploring. The import dependence on primary commodities of OPEC is substantial today. They import something like 4-5% of the world's exports of wheat, something like 7% of the exports of sugar, something like 35% of rice, and something like 8% of tea, and their import bill has expanded pretty substantially during the last year by about 90% in toto.

A Vested Interest in a Stabilisation Scheme

So any group of countries in that sort of position with a heavy import commitment expected over the years is really in the position of having a vested interest in a stabilisation scheme where one can draw from international stocks rather than raise market prices to astronomical levels. And this ought to suit the developing countries as well because of the obverse of prices shooting up to excessive levels with the slump that follows. So if one can work out a scheme of mutually acceptable prices which gives OPEC a profitable avenue for investing money—and the tin buffer stock has shown that buffer stock operations can be very profitable; over 19 years they realised something like £27 million profit on the operation—then I think developing countries can get to UNCTAD with a realistic prospect of "talking turkey" about buffer stocks. I am saying this because as a result of OPEC action on commodities one has had initiatives from the developed countries. But when one probes these initiatives one is a little unclear about the exact content of these initiatives.

Not Transfers of Money but a Reasonable Price

I have already mentioned Dr. Kissinger's Development Security Facility. That really is nothing more than the old UNCTAD supplementary scheme given a new label, and it does nothing more than transfer money to developing countries. What developing countries are now looking for, if I understand the mood aright, is not transfers of money but a reasonable price for their products which they are in a position to obtain by unilateral action; and when one talks of that action one again goes back to the second initiative which was taken by Prime Minister Wilson at the last Commonwealth Prime Ministers' Meeting. He has a principle which I have already alluded to. The principle is that producer countries should undertake to maintain adequate and secure supplies to consumer countries and he is proposing here a generation after the General Agreement on Tariffs and Trade, which is GATT, a great deal more at the level of individual action on commodities.

I have got the document that H.M.G. has provided as a result of the Jamaican Conference. What it comes down to is nothing more than a return to the old approach which has failed to yield dividends, which is the commodity-by-commodity approach. Everybody talks a great deal about how Commodity 'A' is different from Commodity 'B' and how the approach for Commodity 'A' therefore has to be different, and one result of this is that for the last 10 years no more than two or three agreements have been worked out. So that, to my mind, is the wrong road to take. What is perhaps the right road is what UNCTAD has in mind which is the simultaneous negotiation of buffer stocks for a number of commodities.

There is no such thing as a commodity-by-commodity approach here. It is a straight across-the-board approach which has really a number of advantages to members. If you have a single authority running it, that means that that authority can take account of the inter-relationships between commodities. It can make sure that the prices set for tea as a norm are such as not to torpedo or undermine the livelihood of coffee producers. It can take a longer term perspective of prices. If you think of a price at which it is desirable to stabilise commodities, it is also a price at which it is desirable to promote the right sort of investment attitudes. What has happened to commodities in the past is that when prices shoot up excessively in a boom you have over-investment taking place and then prices fall and acreages have to be cut back. So, that cycle can be broken if you have a single body looking into commodity price trends taken together.

Arresting the Vagaries of the Business Cycle

Then you can have a way of arresting the vagaries of the business cycle. At a time of world inflation, boom in developed countries and rising commodity prices, the buffer stock authority can intervene in the market and sell commodities so as to moderate the impact of inflation. And similarly at a time of recession, one can intervene to buy commodities. All of this would not be possible unless you had an across-the-board approach with enough finance to back it that would carry conviction in the market as regards intervention by a single buffer stock authority which no single commodity can command. Ten commodities can command that degree of confidence in the market and 3 to 4 billion dollars, but not one commodity and 200 million dollars. That is the order of difference which an across-the-board approach makes. So I would suggest in all seriousness that if

UNCTAD IV is to come up with something concrete on commodities, it should come to the negotiating table with a concrete scheme which can get off the ground with the support of developing countries alone, and the moment a sufficiently detailed scheme is worked out along these lines, the probability is that it will be in the interests of everybody else to join such a scheme.

Gap in Prices of Producer and Consumer

I have one more point to make on commodities before I end on that particular part, and that is something which UNCTAD has so far not really done as much as it perhaps ought to do. What I am referring here to is the price which the producer receives for a commodity and the price which a consumer pays for it, and the gap between the two. The only study that I know which has gone into this question is an UNCTAD study on bananas and that shows that as little as 10% of the final consumer price is what gets to the producer. The balance is trapped among a whole range of middlemen, usurers, shippers, wholesalers, and it is this particular gap which OPEC action has bridged on the basis of its unilateral effort in respect of oil. Some of the differences between the price of the consumer and the measly 2 or 3 dollars per barrel that OPEC countries got was absorbed by way of taxes by the developed countries. This provided revenue for their budgets, and what the whole bargaining process in OPEC has achieved has been to really bring back to their coffers money which would otherwise have gone to developed country exchequers. That same sort of exercise ought to be done or can be done for a whole range of other commodities; and it would be very helpful if UNCTAD had half a sheet of paper which for every single commodity of significance gives the world at large the difference between the final price and the producer price. What I do have is a set of calculations made by a friend of mine and colleague, Dr. Mahabub ul Haq, in the World Bank globally, and that shows a very interesting story. Of the 200 billion that whole list of commodities that he has compiled fetches in the world market, only as little as 30 billion gets to the developing countries. The rest of the swag is apportioned out elsewhere. If this dramatisation of facts and statistics were placed upon the table, the bargaining task for the developing countries would become considerably easier.

Monetary Issues

In order to draw this to a close within the time-table I have had to set myself, I only want to touch on international monetary issues. The arguments, I think, can be discussed in seminar-type intervention when the occasion arises, and as I have already said clearly development finance is in my view marginal in terms of a realistic capacity for countries to come up with that; so I do not propose to go into that. But marginal issues are important and this is for a single reason, and that is that the world inflationary process that Prof. Gunasekera alluded to is entirely the result of a malfunctioning international monetary system. If you take the magnitudes you get a very revealing picture.

Between 1949 and 1969—a span of 20 years—the stock of international money which is reserved—gold, dollars, mostly dollars actually—grew only by something like 32 billion or at an average rate of 2.7% per year. Between 1970 and 1972 you had literally an explosion of liquidity when as a result of a range of factors which sometimes people rush under the table—commitments to international diplomacy and so forth; the Vietnam war comes into this at some time—there was a major injection of dollars into the world economy. The result was that reserves which had been growing by 2.7% per year jumped to an annual rate of 27% in 1970-72; annual rate of international money growing by 27% as against international output growing by about 4-5%. That is the root cause of world inflation, the fact of very simply too much money chasing too few goods. And that was because the whole international mechanism for liquidity creation went awry at this very crucial juncture in world history. What resulted is that in the period since 1970, between 1970 and 1975, the total addition to international liquidity was about 100 billion S.D.R. But 97% of that went to the developed countries, and 3%, i.e. 3 billion only to the developing countries. This is the measure of maldistribution of world liquidity that has been witnessed in the past few years.

A Rational Design

In that situation there is clearly a rational design for the world to return to, and that again is nothing new. Someone I propose to quote in a few minutes has been writing a great deal about it—Prof. Triffin of the Yale University—and his ideas are really basically very simple: Replace this arbitrary business of using one nation's currency as international money by deliberately created international money, taking into account the rate of growth of world output. In other words, this is the only fool-proof way of making sure that excessive money and inflation is avoided. And as an adjunct to that one would see the International Monetary Fund being converted into a genuine international central bank. What Prof. Triffin says is extremely interesting in this regard because he sees some way of using OPEC bargaining strength in this process, and I would like to quote from that: "If this design had been in existence" (i.e. if the Triffin design had been in place before the oil crisis erupted) "all countries would have been committed to accumulate most of their future surpluses in reserve accounts with the Fund in S.D.Rs to be recycled or sterilised by it in the light of internationally agreed criteria and objectives rather than left free to invest such surpluses as they wished and to trigger currency crises by switching them at any time from one national currency or Eurocurrency into another for political as well as for speculative reasons. The OPEC countries may admittedly be even less willing today to negotiate such a commitment than they might have been at a time when it would not have singled them out as the major countries expected to relinquish their sovereign right to invest their reserves as they pleased. Yet the agreement of other countries to such a commitment with appropriate guarantees and earning might make it more acceptable to all, to reduce in fact the huge exchange risks now inseparable from reserve accumulation and strengthen the ability of the international community to meet other yet unforeseen crises certain to emerge in the future as in the past". He is describing here a design that might have been operative had the system been in place before the oil crisis. But the fact that there is leverage within the Third World so long as the Third World remains united plus the need to apply a certain measure of technical expertise into working out details of this sort does permit some thinking along these lines to come up on the UNCTAD agenda very squarely. I am saying this advisedly because financiers are notoriously very conservative people, and when one was talking about an international central bank and a world central bank as recently as six months ago one was sort of being laughed out of court I think. But I came across, in the "London Times", the other day the Managing Director of the Fund, Johannes Witteveen, talking very much in these terms. He was talking about how over the longer term the International Monetary Fund could become an international central bank. It already performs central banking functions in a limited way since it has created S.D.Rs or paper gold, monetary reserves etc. So UNCTAD can play the role, in my view, of using the leverage that the Third World has today to bring about an ideal monetary design on mutually acceptable terms.

COMMODITY PROBLEMS AND STABILISATION POLICIES

*LEELANANDA DE SILVA**

Introduction

In a paper of this length, it is impossible to cover all aspects of the "Commodity Problems", even in the narrow sense in which we define it here. We therefore assume that the reader has a certain basic knowledge of the methods and history of commodity price stabilisation and concentrate on the analysis of a few specific aspects of instability and corrective policies. Our coverage is as a result unbalanced, but this would seem preferable to the alternative of an attempt at complete coverage of the topic which, in the space available, would necessarily result in a largely descriptive paper paraphrasing the published and readily available work of others.[1]

Commodity Export Instability and the Less Developed Countries

One would expect that LDCs would be more susceptible to instability in export earnings than developed countries for several reasons. Their low levels of per capita income with little economic diversification mean that resources cannot be easily transferred to more stable activities. They already tend to suffer more from other economic instability than do developed nations. They tend to rely more heavily on export taxation and, as a result, instability will have

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* Paper presented at the Asian Regional Seminar on the New International Economic Order and UNCTAD IV, Singapore: 8th — 11th December, 1975.

1. The most complete body of description and analysis of commodity problems and agreements has been compiled by UNCTAD, and may be found in the mimeographed papers of the Trade and Development Board.

a greater direct impact on government revenue planning. Their governments are less able to mitigate the impact of instability through the use of monetary and fiscal weapons. And perhaps of most importance, the impact on peasants engaged in cash crop production can result in increased indebtedness, loss of land, intense hardship and possible starvation.

In 1972, exports of primary commodities from developed countries accounted for one quarter of their total export earnings, whereas 79% of the export earnings of LDCs accrued from commodity exports.[2] Therefore to the extent that LDCs depend heavily on primary commodities for their earnings they will experience greater export instability than developed countries and will also tend to be less able to cope with its consequences.

The commodity problems experienced in LDCs have many aspects and dimensions such as over-production leading to price decline, demand fluctuations over the trade cycle, the oligopolistic operations of the multinationals and competition from synthetics. A comprehensive coverage of all such topics would require a very lengthy paper which would encroach on many of the other papers to be presented at this seminar.

We therefore limit our analysis to one aspect of the "commodity problem", namely fluctuations in commodity prices and export earnings and measures which can reduce them or mitigate their impact. We exclude discussion of secular price increase or decline except where it is of relevance to the problems of instability. This does not limit our discussion of current measures or of proposals which have been developed to any degree, because all are aimed at price stability rather than price increase.

Although most proposed and operating commodity agreements and compensatory finance arrangements are aimed at reducing or compensating for fluctuations in export earnings, the proposition that fluctuations have a damaging effect on less developed economies is still not universally accepted. One extreme view is that levels of saving and investment are increased by fluctuations in export earnings and that fluctuations therefore increase the rate of economic growth. It is based on the not implausible hypotheses that individuals

2. Source: World Bank, "Commodity Trade and Price Trends", 1974.

save more in conditions of uncertainty, and entrepreneurs invest heavily when export earnings are high, but disinvest little when conditions turn for the worse.[3] Evidence consistent with the latter hypothesis was collected in an indepth study of entrepreneurial activity in the Chilean Copper Industry,[4] which found that investors tend to see the upswing of a cycle as the start of a new, more favourable trend and therefore increase investment, but do not disinvest in the downswing. The study concluded "One learns from the Chilean case that if the goal of commodity stabilisation policy is domestic stability and maximum growth, it is neither appropriate nor sufficient to stabilise the value of export earnings".

The majority of economists, however, seem convinced that fluctuations in export earnings are damaging to the economies of LDCs.[5] Very briefly, their arguments follow two main lines. Firstly, the development projects of LDCs require imported inputs and must therefore be based on the forecast of certain future levels of foreign exchange earnings. Fluctuating foreign exchange earnings make accurate forecasts impossible and project implementation and follow-up is as a result hampered. Secondly, fluctuations in export earnings fall on labour earnings and business incomes in the export sector and the resulting variation in consumption and investment in these sectors is transmitted to other sectors via various linkages. The instability so caused increases the level of risk associated with investment, with the result that levels of private investment and the rate of economic growth fall.

Empirical tests of these a priori arguments have unfortunately led to conflicting results.[6]

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3. For an eloquent exposition of these hypotheses based on extensive observation of the Malaysian economy see: Sir Sidney Caine "Instability of Primary Prices A Protest and a Proposal", Economic Journal, September, 1954.

4. C. W. Reynolds, "Domestic Consequences of Export Instability", American Economic Review, May 1954.

5. For brief summaries of the arguments see H. Askari and G. Weil, "Stability in Export Earnings of Developed Nations", Journal of Development Studies, Vol. II, No. 1, October 1974 or G. R. Erb and S. Schiave-Campe, "Export Instability Level of Development and Economic Size of Less Developed Countries", Bull. of Oxford Inst. of Economics and Statistics, Vol. 31, No. 4, November, 1969.

6. For a recent survey of these conflicting results and further empirical analysis see, C. Glezakos, "Export Instability and Economic Growth: A Statistical Verification", Economic Development and Cultural Change, XXX, 4, 1973

In the absence of conclusive evidence and with opposing theoretical arguments, it is left to the individual to make his own subjective appraisal of the impact of fluctuations in export earnings on the economies of LDCs. We feel that they will normally be damaging, but that the extent of damage may be small for many countries compared with the impact of past and continuing adverse changes in the commodity terms of trade. In addition, we consider that instability in *import capacity* is likely to be considerably more damaging than instability in export earnings, which in certain circumstances may tend to actually stabilise import capacity.

For some commodities, the average actual percentage rate of decline in the commodity terms of trade has exceeded average percentage fluctuations in export earnings above their trend,[7] and exporters of these commodities would have benefited and considerably more from a reduction in the rate of decline in the terms of trade than from a reduction in fluctuation in earnings. Conversely, one would expect that they will in future tend to benefit far more from measures aimed at improving their terms of trade than from measures aimed at reducing price fluctuations. In such cases, an OPEC type strategy would be the most appropriate, with effort first being concentrated on real price increase and then on stabilisation of prices at the new real levels.

The Causes of the Instability in Export Earnings

Variations in commodity export earnings result primarily from shifts in world commodity supply and demand functions. The extent of variation depends on the size of shifts, the relative elasticities of supply and demand, and whether price and quantity changes are off-setting or reinforcing.[8] Empirical studies have tended not to test hypotheses deduced directly from supply and demand analysis, but instead have concentrated on the examination of the following three statements which as a result of deduction, casual observation and intuition have become part of the conventional wisdom.

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7. Thus for example, the commodity terms of trade for tea exported from Sri Lanka declined at an average rate of 10% from 1962 - 74, but the SDR value of tea exports fluctuated by only 5%, about a 5 year moving average trend computed for the same period.

8. Simple comparative static supply and demand theory indicates that changes in export price and quantity will be reinforcing if they result from a shift in demand, but off-setting when resulting from a shift supply. Ceteris paribus, one would therefore expect greater instability in the export earnings for commodities the demand for which tends to be less stable than the supply.

1. Countries which primarily export non-manufactured primary products which are traded in volatile world markets are likely to experience greater instability in export earnings than those countries which primarily export manufactured goods.

2. Countries which concentrate on the export of only a few commodities have little scope for off-setting positive and negative movements in the export earnings of individual commodities and therefore tend to have less stable export earnings than countries with a more diverse group of exports.

3. LDCs tend to concentrate on the export of a few primary commodities whereas developed countries tend to export a wide range of goods a large proportion of which comprises manufactures. If hypotheses 1 and 2 are correct, then most LDCs will have less stable earnings than most developed nations.

Empirical evidence on each of these hypotheses had been conflicting,[9] and there is as a result no consensus on the major characteristics of export trade which lead to instability. There is therefore little positive to be said on measures which LDCs can take to alter the *structure* of their trade with a view to mitigating export instability. The extent to which such measures as crop diversification, accelerated industrialisation or regional integration may reduce or possibly increase export instability is consequently unknown. In now discussing measures aimed at stabilising export earnings, we therefore concentrated on methods which directly effect fluctuations in export prices and earnings, and which are not dependent on altering the structure of trade.

Stabilisation Schemes

We limit our discussion to schemes aimed at stabilising prices and earnings about their long-term trend. Such schemes may, however, affect the trend and the level of long-term cumulative export earnings through a number of mechanisms. Firstly, reduction in fluctuation in the price of a commodity may make it more attractive to both producers and consumers and may increase both supply and

9. For an account of the latest position see Askari and Weil, ibid.

demand. Whether this leads to a long-term price increase or decrease will depend on the relative elasticities of and shifts induced in the supply and demand functions. Secondly, in the stabilised situation more/less may be sold at higher prices and less/more at lower prices, so that the average price over time may be higher/lower under price stability. Thirdly, stocks held by consumers may be reduced in a situation where prices are stable, with the result that the cumulative earnings of exporters will be reduced by the value of sales foregone at the ruling market price and by the reduction in the value of sales which results from any price reduction resulting from the reduced demand associated with the run-down of stocks by consumers.

Stabilisation schemes can affect earnings in three quite distinct ways which may be used singly or in a combination:

1. By operating on the volume of transactions as price varies and thus on price (Export and Production Quotas and Buffer Stocks).
2. By operating on prices and thus also on the volume of trade (Bilateral Contracts and Multilateral Commitments).
3. Via direct compensation for shortfalls in export earnings (Compensatory Finance Schemes).

(i) Export Quota Systems

The export quota has been the most common feature of international commodity agreements which have been introduced or seriously considered since 1945.[10] It has not, however, normally been used to stabilise prices in the strict sense, but rather to halt the downward drift in prices caused by rapidly expanding supply exceeding the growth in demand. Nevertheless, to the extent that quotas prevent excessive downward fluctuations, they clearly reduce the level of fluctuations about the new long-term trend. Export quotas have had some success in this limited role for coffee, sugar, hard fibres and tin in the latter case in conjunction with a buffer stock.

10. The history and experience of commodity agreements for individual commodities is readily available in a number of publications and we, therefore use the experience of individual commodities in this paper as examples, and do not attempt a comprehensive coverage. An up-to-date coverage may be found in "World Economic Interdependence and Trade in Commodities", Cmnd. 6061, HMSO, London, 1975.

The main impediment to the successful negotiation of an international system of export quotas is the problem of international equity in the allocation of quotas. The final allocation must result from a balance between historic national export levels and forecast rates of growth of national production which would have been available for export in the absence of the agreement. Where commodity exports are split between a number of traditional exporters and a number of rapidly expanding new producers, the balance is particularly difficult to achieve.

In addition, for commodities where productive investment has a long period of gestation, investors are normally loath to reduce exports by disinvesting in response to what may possibly be a short-lived agreement. The resulting stock build-up overhangs the market and tends to make the agreement ever more fragile.

Finally, export quotas by partially or wholly freezing international market shares tend to delay rationalisation of production and slow the concentration of production in the most efficient producing nations,[11] and often the methods used by individual nations to limit production to levels compatible with their export quota tend to reduce production efficiency further.[12] This is clearly likely to be particularly damaging for commodities such as jute and rubber which are subject to strong competition in use from synthetics.

(ii) Buffer Stocks

Since the 1930s, buffer stocks have been the most widely discussed and recommended measure for achieving international commodity price stability, and their potential advantages are now well known. Briefly:—

1. With adequate resources, a buffer stock can achieve price stabilisation without direct restriction of export volume and without the associated problems of international equity, inefficiency and unwanted stock accumulation.

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11. Kalder has suggested an ingenious, but unfortunately impracticable means of achieving flexibility in international export quota arrangements with the use of export taxation. N. Kalder, "Stabilising the Terms of Trade of Underdeveloped Countries", Economic Bulletin for Latin America, Vol. VII, No. 1, March 1963, pp. 1-7.

12. For example, in response to her export quota under the International Coffee Agreement, Kenya simply banned any new planting of land under coffee.

2. It can in certain circumstances be self-financing and possibly even commercially profitable.

3. It can operate without comprehensive direct participation by parties to the agreement.

4. The management of the stock should be capable of better informed and therefore more efficient intervention than the managers of national stocks.

5. The stock carries no overtones of cartel-type restrictions.

6. It does not require immediate change in national policies or marketing systems.

Despite these advantages, a buffer stock has operated with any success for one commodity only—tin—and even then only in conjunction with agreements to control exports and stocks. The reason is that as well as the apparent advantages, there are severe problems which must be overcome if a buffer stock is to operate successfully. The major problem arises from the fact that a buffer stock is first and foremost an instrument of price stabilisation which can only be used to stabilise price about its long-term trend. Any attempt to use a buffer stock as an instrument of price increase would require long-term purchases into the stock to be greater than sales from it and would result in a progressive enlargement of the stock over time. Thus, the manager of the buffer stock faces the problem of anticipating future prices and market developments so that the price floor and ceiling can be set with reference to them. Forecasts in the commodity field are notoriously difficult (particularly for the most volatile commodities for which a buffer stock is of potentially most use), and the manager may find prices consistently above the ceiling as has happened since mid-1973 with the planned buffer stock for cocoa. Alternatively, if floor and ceiling prices have been based on an over optimistic assessment of the long term price trend, the financial resources of the stock will soon become exhausted in attempts to support an artificially high floor price. The basic problem is that, while ex-poste it may be comparatively easy to isolate long-term price movements and short-term volatility, at the time it is usually extremely difficult to distinguish between short-term fluctuations which can be corrected by buffer stock purchases and sales, and more permanent changes which require a shift in the floor and ceiling prices. Frequent changes in floor and ceiling prices permit wide fluctuations in prices to continue and therefore defeat the purpose of the stock, but too few changes may result in rapid exhaustion of the physical stock or its finances. Achievement of the correct balance requires both skill and good fortune.

Combination of a buffer stock with a system of export quotas can at least partially overcome the problem, because the quotas can be used to modify longer term price trends thereby reducing some of the uncertainty experienced in setting floor and ceiling prices for stock operations. The use of export quotas as a major regulatory provision alongside the tin buffer stock was found to be essential in both the inter-war and post-war periods, as was control of stocks which effectively translated the export quotas into a system of production control. The 1972 International Cocoa Agreement also combines a system of flexible export quotas with its buffer stock, and it looks as though the rubber stock which is being discussed by the Association of Natural Rubber Producers may also be backed by a system of direct export control. The apparent need to use direct export control alongside a buffer stock takes away many of the advantages of a 'pure' stock which we listed above. It remains to be seen whether an international buffer stock will ever operate successfully on its own, or with the possible introduction of UNCTAD's integrated programme—need ever do so.

The corner-stone of UNCTAD's integrated programme for commodities is a series of buffer-stocks financed from a common fund. To the extent that movements in the prices of commodities included in the programme are not correlated, the funds available for each stock at times of price support will be greater than if each were financed separately with the same overall commitment of funds. This will increase the stabilising power of each stock and enhance its chances of success. Furthermore, the extra security afforded by the spreading of a common fund over a series of commodity stocks is likely to lead to cheaper finance for the fund, and it is possible that, in addition, the momentum created by UNCTAD's programme may result in a substantial volume of aid support.[13] If the integrated programme as a whole is successful, the amplitude of worldwide cycles

13. The proposal made by the Minister of Finance of Sri Lanka at the Seventh Special Session of the United Nations to use a part of the I.M.F. gold earmarked for disposal to finance the consumer fund for buffer stock financing as proposed by UNCTAD, is a feasible arrangement to bring the Fund into operation early.

in economic activity will be reduced, and this in itself will ease the problem of the management of stocks and the resources which they will require. However, notwithstanding these advantages, the problems experienced in the management of the individual buffer stocks will still be severe and their incorporation in the integrated programme by no means guarantee their success.

(iii) Bilateral Contracts and Multilateral Commitments

Contractual agreements between governments have played an important role in the trade of centrally planned economies and in general international trade in certain commodities, particularly minerals. They have tended to become more important as a result of the widespread establishment of statutory marketing authorities and the need for the governments of less developed countries to control the allocation of foreign exchange on a continuing basis. In some cases they have also served as a means of transferring aid.[14]

From the point of view of stabilisation, bilateral contracts are advantageous in the sense that they lead to stable and known prices for the agreed quantities over the period of the contract. They, however, tend to destabilise the market for residual trade which takes place in addition to contractual trade, and as the negotiation of new contracts will tend to use the residual market price as a benchmark there may be greater fluctuation in the prices negotiated in successive contracts than would have existed in a 'contract free' market.

Recently, interest has centred on multilateral rather than bilateral contracts as a means of stabilising commodity prices. Although the Commonwealth Sugar Agreement contained some multilateral elements, the only true 'symmetrical' multilateral contractual arrangements were the early post-war International Wheat Agreements. In these, each exporting member country agreed to sell to importing member countries not less than a specified aggregate quantity of wheat at not more than an agreed maximum price, and such importing member country agreed to purchase from exporting members a specified minimum quantity of wheat at not less than an agreed minimum price. Total import commitments equalled total export commitments. Thus, in effect, each country agreed to carry out a certain

14. For example, China pays Sri Lanka more than the Singapore market price for rubber purchased under their rice/rubber bilateral agreement.

minimum volume of trade in the price range determined by the maximum and minimum prices. The aim was to ensure a relatively stable price over the 3-4 year duration of the agreement and to ensure a minimum level of market access for exporters.

In practice, agreements of this nature cannot embrace all world trade in a particular commodity. Future national supply and demand is uncertain and governments will not wish to commit themselves to more than the very minimum which they expect they would wish or be able to import or export, and this may be considerably less than the quantities which they eventually demand and supply to the world market. This will be particularly so in unplanned market economies where governments may be loath to control production and consumption sufficiently closely to keep import demand and export supply at precisely the necessary levels. Thus, in addition to world trade covered by the commitments, there will normally be a residual free market.

If total world supply and demand would have resulted in a price within the range agreed in the multilateral contract, there will be no pressure on the agreement and the agreed minimum purchases and sales will take place within the agreed price range. However, as all world trade would have taken place within the range in the absence of the agreement, it will in these circumstances have no impact on price stabilisation. If in the absence of the argeement the world price would have been below the range actually negotiated, purchasers will be forced to buy most or all of their requirements at the artificially high price, and the residual market price is likely to fall to very low levels before buyers are prepared to purchase the extra-agreement supply. The low residual market price will tempt buying nations to break their commitment and purchase much or all their needs from the residual market. In the reverse situation where world demand is greater compared to world supply than anticipated, and the residual market price is as a result above the maximum of the multilateral agreement, sellers will now be tempted to break the agreement and sell as much as possible in the residual market.

Thus, multilateral commitments are likely to be ineffectual or to lead to highly unstable residual markets which may lead to nations breaking their commitment. The net effect of their introduction on average fluctuations in world commodity prices is therefore uncertain[15]. A system of multilateral commitments is one of the five elements of UNCTAD's integrated programme for commodities and the detailed research which UNCTAD is carrying out as a basis for developing the programme should go a long way towards eliminating this uncertainty.

(iv) Compensatory Finance Arrangements

An alternative or supplement to commodity price stabilisation is the stabilisation of export earnings via international compensatory transfers aimed at making good all or part of earnings shortfalls below some trend reference level. Two schemes aimed at earnings stabilisation are currently operating, namely the IMF Compensatory Financing Facility and the Lome Convention STABEX Scheme.

(a) The IMF Facility

The scheme is aimed at compensation for shortfalls in total export earnings of a short-term nature and is therefore based on loans rather than grants. Drawings are limited to 25% of a member's quota in any one year with a total limit of 50% of quota. They carry an interest rate of 4% per annum rising to 6% if members fail to repurchase drawings within the stipulated time of 3-5 years. In order to qualify for assistance under the facility, a country must demonstrate that the export shortfall has led to balance of payments difficulties. Drawings under the Facility up to the first 25% of quota are permitted with few questions asked, but the second 25% is conditional on co-operation with the fund in finding solutions to the nation's balance of payment difficulties.

Determination of the shortfall itself is not based on an automatic formula but rather on the Fund's analysis of the nation's production and market situation, but as a starting point for this analysis they favour a reference earnings level from which shortfalls can be computed which is based on the export levels of the previous two years and the current year with weights of 25%, 25% and 50% respectively.

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15. The relevant theory was however first discussed 25 years ago in, H. G. Johnson, "The Destabilising Effect of International Commodity Agreements on the Prices of Primary Products", Economic Journal, November, 1950.

UNCTAD consider that the IMF facility could become a useful part of its integrated programme if it were modified by:—

1. Making the balance of payments criteria for assistance less rigid.
2. Eliminating the provision that the amount of compensation available be determined by the countries for IMF quota.
3. Relaxing the timing of the provisions of statistical data on export shortfalls, and granting partial advances in anticipation of statistical proof of shortfalls.
4. Making the repayment of loans more closely linked to the recovery in export earnings, and dropping the obligation for repayment within 3 - 5 years.

(b) STABEX

The STABEX Scheme which commenced in July 1975 covers exports from A.C.P. states to the E.E.C. Shortfalls in export earnings for each of twelve commodity groups are calculated for each exporting country by comparing actual export earnings in the calendar year in question with a reference level specified as the average of the previous four years. The least developed, landlocked and is lanel A.C.P. states may request a transfer under the scheme if a shortfall in any commodity group is more than 2.5% below the reference level, and other A.C.P. states when it is more than 7.5%. The total resources at the disposal of the scheme for the five years duration of the agreement is 375 million (EEC) units of account and the extent of compensation for shortfalls will be a function of total claims made. No interest is charged on transfers, but the richer A.C.P. states are required to repay loans if in any of the five years following the transfer both the quantity and unit value of exports in the relevant commodity group are above their respective reference levels. Repayment is limited in such years to the excess of actual earnings over reference earnings. The least developed A.C.P. states do not have to repay transfers.

Although both the IMF and STABEX schemes are ostensibly aimed at *stabilisation* of export earnings, the use of historically based reference levels means that mild fluctuations around a strong upward trend in earnings may not lead to measured shortfalls and in such a situation there may be no compensation. Conversely, a downward trend in earnings would lead to compensation even if there were no fluctuations in earnings about the trend. Both schemes will therefore, tend to be ineffective if worldwide inflation continues and export earnings rise as a result. In such circumstances it is possible that no compensatory transfers will be made despite fluctuations in money export earnings or violent fluctuations or large falls in real earnings. This possibility was demonstrated in Sri Lanka in 1974, when, despite the very large fall in her import capacity, her total export earnings were 20% above their reference earnings level using the STABEX Formula.[16]

However, as the reference earnings levels will be based on a period which includes the commodity boom years of 1973/74, it would seem that a basis for transfer will be established for some of the commodity export groups in at least some of the countries over the initial five year period of the scheme. But this does not mean that A.C.P. countries or LDCs in general will be better off as a result of the scheme. As the twenty four A.C.P. states designated least developed (and possible other A.C.P. states as well) will not be required to repay transfers under the scheme, it is not a pure compensatory finance arrangement but a hybrid designed partly to stabilise export earnings and partly to serve as a basis for the distribution of E.E.C. aid.

As an export earnings stabilisation scheme it has four major deficiencies. Firstly, for the poorest ACP countries STABEX only attempts to reduce the extent of downward fluctuations in export earnings, leaving earnings to fluctuate freely above the trend. If all recipient nations were required to repay transfers in boom years, both positive and negative fluctuations would be reduced and considerably more transfers would be possible within the constraints of the STABEX fund. Secondly, the lack of provision for set-off between commodity groups of surplus against shortfalls means that countries may receive transfers when there is no shortfall in their total export earnings, thereby again reducing the funds available for nations who are genuinely in need of compensation as a result of such shortfalls. Thirdly, the scheme excludes the highly unstable

16. This only gives a broad demonstration of the possibility as it is based on total visible export earnings and not the export earnings of commodity groups.

commodity, copper, while including relatively stable commodities such as tea. Fourthly, the vague and discretionary provisions for repayment of transfers at the end of the initial five year period of the agreements will for the most advanced ACP countries lead to uncertainty as to potential foreign exchange availability of exactly the type which the scheme is intended to alleviate. In addition to these main deficiencies, the detailed provisions of the scheme result in many anomalies. Why, for example, should one nation which experiences a 7% shortfall in export earnings from a particular commodity receive no compensation when another which experiences an 8% shortfall is permitted to use the full 8% as a basis for compensation. Finally, it must be added that by stabilising export earnings rather than import capacity, the scheme can at best only partially alleviate the domestic problems which result from world economic instability.

As a basis for the transfer of aid, STABEX has little to commend it. It is possible that as a result of insufficient shortfalls or repayment of transfers all the resources allocated to the STABEX fund may not be disbursed over the 5 year period of the agreement. As shortfalls are measured in money terms disbursements will tend to be lower, the greater the rate of world inflation, yet it is widely accepted that inflation tends to reduce the income of LDCs vis-a-vis developed nations.[17] As a result of the E.E.Cs preference for the creation of rigidly defined trading blocks, certain rich nations receive more favourable treatment than nations who are considerably poorer. For example, Zaire with per capita income of $100 is treated less favourably than the Bahamas with per capita income of $2,240.

The STABEX Scheme therefore has little to recommend it either as a compensatory finance arrangement or as a basis for the distribution of aid.

The use of IMF gold to finance the proposed Development Security Facility would result in substantial transfers of real resources to LDCs. The facility would, however, be based on compensatory financing of export earnings, and, in the light of the above analysis of the STABEX scheme, it must be questioned whether

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17. One element of the Prebisch-Singer explanation of the deteriorating terms of trade of LDCs is that trade union power in developed nations is able to win continual wage increases which lead to ever increasing prices of administratively priced industrial goods, where as prices of basic commodities depend on market prices which in turn determine the income of producers.

this is likely to result in either an efficient or equitable transfer of resources. An extended IMF compensatory finance facility embodying some of UNCTAD's suggested modifications may be the best means of reducing the impact of export instability on LDCs, and equitable transfer of the real resources generated by the sale of IMF gold could perhaps best be achieved using more conventional aid channels and criteria. At the very least, developing nations must subject proposed compensatory finance schemes to close scrutiny, and Asian states when considering the possible extension of STABEX type schemes to them should examine whether the aid embodied therein could not better be disbursed using criteria other than shortfalls in export earnings.

Conclusions

Although it is not universally accepted that fluctuations in export earnings necessarily have an adverse effect on the economies of LDCs, it would seem likely that their disruptive impact on planning and investment will reduce growth rates, particularly to the extent that they also result in fluctuations in the capacity to import.

Our analysis of certain aspects of the price and earnings stabilisation measures which are currently under international consideration shows that all have defects of one sort or another, and less developed commodity exporters should subject each to critical examination before agreeing to the commitment of national or concessional resources to them.

Recent instability in commodity prices has convinced the developed importing nations that they have much to gain from commodity price stabilisation and the resulting increase in their willingness to discuss arrangements has led to the many stabilisation proposals currently under consideration. However, the importing countries have much to lose from *increases* in commodity prices and there has, as a result, been no similar worldwide increase in enthusiasm for measures aimed at *price increase* rather than stabilisation, and the attention of LDCs has tended to be diverted from the possibility of such measures. Given that low prices, and not unstable prices, are the major problem facing the exporters of many commodities, less developed commodity exporters should attempt to divert some of the current thrust in commodity agreements away from the stabilisation of money prices and towards the improvement and subsequent stabilisation of the real prices at which commodities are traded.

INTER-GOVERNMENTAL CONSULTATION ON TEA AND RUBBER

*C. CHANMUGAM**

TEA

Efforts by the international tea community to stem the decline in the unit price of tea through collective action have not met with any success despite a number of conferences/consultations held under the auspices of FAO. Basically the world supply of tea was running ahead of demand and the excess was being absorbed at lower prices; consequently, export earnings were stagnant or declining for the major traditional exporting countries (India and Sri Lanka) but somewhat improved for the newer producing countries (East Africa).

The main strategy—which was the subject of protracted negotiations by the principal tea exporting countries—was the regulation of exports through export quotas in order to attain a given price objective. The first successful attempt at negotiation resulted in the Mauritius Agreement of 1970 which was really a "holding" operation that allocated somewhat generous export quotas to 13 member countries under an interim arrangement for 1 year. However, the Agreement lacked any "bite" and the effect on the market was largely psychological.

Thereafter in 1971, the two conciliators (from FAO & UNCTAD) who were appointed to reconcile the widening differences between the various exporting countries put out a provocative report on the principles of a long-term agreement for tea, which set out guidelines for the framework of a 10-year agreement. The basic idea was a deal

* Paper presented at the Sri Lanka National Seminar.

between India and Sri Lanka on the one hand and the African countries on the other, with one group gaining in the first 5-year period, whilst the advantage in the second 5-year period rested with the other. For example, in the first 5 years there was no significant restraint on exports from African countries so that the main burden of controlling supplies would fall on India and Sri Lanka whose combined exports would be static. In the second 5 years, however, exports from India and Sri Lanka would expand so that the main burden of control would then fall on the African producing countries who would have to phase out their new planting programmes.

These proposals did not find acceptance with the African producers who preferred to continue quotas on a yearly basis, thereby placing no restrictions on new planting, as opposed to India and Sri Lanka who were pressing for a long-term agreement which would contain African expansion. Eventually some sort of artificial compromise was reached and the international tea community limped along from

— an interim 1 year export quota arrangement in 1970
— to a 15 month (January 1971 to March 1972) export quota
— to a 3 year export quota for 1972/73, 1973/74 and 1974/75 which was subsequently made a moving 3 year quota
— for 1973/74, 1974/75, and 1975/76, and currently
— for 1974/75, 1975/76 and 1976/77.

This exercise by the international tea community was, however, purely "window dressing", as individual country quotas were the estimates by respective governments of their exportable surpluses and contained no restrictive element whatsoever. Certainly, they were not expected to reverse the declining trend of tea prices at the London Auction which continued its downward drift until 1973 when a slight gain was recorded, but which in real terms represented a fall well below the price received in 1969, the year in which the Mauritius Agreement was negotiated.

The several unsuccessful attempts by tea exporting countries to arrive at a meaningful international tea agreement received a jolt in the latter half of 1973 when the oil exporting countries unilaterally raised oil prices (about 3 times the 1972 level) which had the indirect effect of sending the cost of inputs (oil, fertilisers, etc.) for agricultural production including tea soaring upwards. Thus, the oil exporting countries were able, in one fell swoop, to create conditions which imposed restraints on tea production and a resultant diminution of export availability. They thereby succeeded in raising world prices for tea, which the international community had signally failed to achieve over the years. The oil crisis, however, was not the only factor, as it coincided with drought chiefly in Kenya and Sri Lanka and the general inflationary pressures of the "commodity boom" which up till then had bypassed a number of commodities, one of which was tea.

The modest improvement in tea prices at the end of 1973 gathered strength in 1974. Much of this increase was, however, effected by increases in the cost of inputs such as fertilizer, tea chests, fuel and wage rates. The total volume of exports in 1974 remained at about the same level as in 1973. The 1975 supply position was not expected to improve over that of 1974 because of diminution of export supplies from Kenya (due again to drought); Sri Lanka (although there is a higher export availability in 1975 compared with 1974 exports will be lower than the Five-Year Plan target); and India (due to pressure of rising local consumption in India). It is noteworthy that although India has increased her production in 1974 by nearly 30,000 tons over the 1973 level, her exports increased by only 13,000 tons over the same period.

In June 1974, the Sub-Group of Exporters of the Inter-Governmental Group on Tea agreed at that time "that in view of the precarious financial position of tea producers as a result of the great and continuing increase in production and other costs it was vital for the survival of the industry that effective means be taken to sustain and increase the real price of tea". It was noted that although tea prices had increased in current Dollar terms their purchasing power deflated by the United Nation's Index of the unit value of exports of manufactured goods was lower than the prices fetched 20 years earlier. It was with the hope of consolidating and improving the real price of tea that the tea exporting countries agreed in principle to examine in depth the technical feasibility and economic advantages and disadvantages to tea exporting countries of the following elements of a multi-dimensional agreement for tea:—

1. A minimum export price arrangement below which exports would not be allowed;

2. The co-ordination and regulation of marketing to avoid build up of stocks in importing countries which would have a depressing effect on prices;

3. Intensification of and co-ordination in global promotion, including new markets;

4. Rationalisation of marketing so as to achieve the most favourable prices with special references to the feasibility of expanding auctions in producing countries;

5. Provision of an independent market intelligence service for the tea exporting countries, designed to provide up-to-date and regular information about market development and future outlook for various types of tea.

The above elements really fall into three groups:—

(a) Improving the real price of tea by restricting supplies through global export quotas or a minimum price scheme below which teas would not be exported;

(b) Co-ordination in promoting and expanding world demand for tea; and

(c) Strengthening of the local tea auctions in producing countries so that governments have a greater say in the marketing of tea.

The most important item was that concerning a minimum export price and the linking of an export quota type of agreement with the minimum price. Papers were presented on all the "elements" by the FAO and UNCTAD but none of these except the minimum export price arrangement for tea prepared by the UNCTAD Secretariat contained any practical solutions capable of implementation. Even the UNCTAD Paper in its conclusions stated—

"Notwithstanding the difficulties, the general conclusion of this Study is that floor prices are technically feasible for world exports of tea provided that there is an agreement at the political level of their desirability and the limited but positive role they may perform. At the same time there can be no guarantee that they will succeed in the even limited role assigned to them in this Paper".

The Sri Lanka scheme for ensuring "floor prices" was also studied. It was suggested that the slow but progressive increases effected under the Sri Lanka export duty rebate scheme, based on careful monitoring of the Colombo Auctions, was one way of firming up the prices of teas fetching poor prices. But other delegations rejected the proposal as not feasible in their countries.

Even if the UNCTAD report had been more positive there would have been no chance of obtaining agreement regarding the implementation of a floor price scheme by the other tea producing countries except possibly India. India supported the recommendation for a floor price and was prepared to rely on the experience of Sri Lanka in the implementation of any feasible scheme. The African countries, however, were totally opposed to a floor price scheme describing it as impracticable, and stressed the fact that the degree of governmental control involved in any export licensing scheme was unacceptable. In the face of this opposition and with little to lose or gain Indonesia also rejected the floor price scheme as not feasible.

As an effective floor price scheme for tea cannot be achieved by India and Sri Lanka alone as it required adherence to by Indonesia and Kenya—to bring up the world export trade in black tea to at least 80%—the talks were unfruitful. Even on the other items such as strengthening local auctions and reducing dependence of exporting countries on London as a sales centre, the response was negative. The only positive approacn taken by the African countries was in regard to tea promotion particularly in the United Kingdom where Sri Lanka and India are steadily losing their share of the market to the African countries. Promotion alone will only marginally improve the supply-demand position and unless it is linked to an effective restriction of supplies to the world market its impact on prices will be minimal.

The main reason for the position taken by the African countries was their belief that:—

(a) Sri Lanka's tea industry and tea production are steadily going down-hill as a result of high taxation and governmental interference over tea estates;

(b) India's internal tea consumption is rising rapidly (by about 8% annually), while production is increasing by 2 - 3%. Consequently, India, whose exports and local consumption are about equal, will be hard put to it to maintain exports at earlier levels;

(c) The African countries are able to obtain concessionary terms of trade with the E.C.M. countries under the Lome Agreement.

This belief impels the African countries to proceed unabated with their plans for expanding small-holder tea plantations through financial assistance from the World Bank and other international agencies. Moreover, backing from buyers in the U.K. who have extensive interests in Kenya, assures them of some preferential treatment at least in the U.K. market.

An appreciation of these issues which shape the attitude and harden the stand of the African producers in the international tea forum is of paramount importance to Sri Lanka. These issues and their impact on Sri Lanka are briefly discussed below.

The Lome Agreement between the ECM countries and the African countries has been hailed as a major advance in international co-operation and trade. Under this agreement, the ECM countries will reimburse the producers of certain commodities when the export earnings of these to the ECM countries fall below an agreed level. Tea is one of these commodities. Accordingly, the African tea producing countries are safeguarded against any sharp fall in the unit price of tea to the ECM countries. This agreement greatly strengthens the hands of the African producers.

India holds the key to the resolution of an international tea agreement. Rising domestic consumption could lead to a major fall of Indian tea exports, but India has safeguarded against this by imposing excise duties on tea destined for local consumption. India, however, is not prepared at this stage to reduce exports to satisfy internal consumption because she wants to improve her foreign exchange earnings from tea.

Sri Lanka's bargaining position is weak in the short run. Sri Lanka's tea production has been stagnant or declining over the last 10 years. The shortfalls in production and exports have been chiefly due to depressed trading margins, a relatively high rate of taxation compared to her competitors abroad and a weak international market leaving slender or disappearing resources in the hands of producers. The bulk of the industry was sinking slowly into a "care and maintenance" basis. In 1973, the position was even more desperate as a result of the fuel crisis. The timely introduction by Government of the Package Deal to the tea industry in October 1973 and the improvement in tea prices during 1974 due to shortage of supplies in the world market has fortunately restored profitability to the producers. However, production is likely to suffer for some time, as standards of maintenance and fertilizer usage has declined in many of the tea lands over the last few years. It is estimated that 10% of the cultivated acreage has been abandoned. There have also been non-financial factors such as drought for three years in succession, an unavoidable uncertainty over land reform—nearly 20% of the land fell under State management under Phase I of the Land Reform Law—and the uncertain role of the private sector which have contributed to the fall in tea production. This uncertainty has now been resolved by the take-over by the State of the Company-owned estates. The total tea lands in the hands of the State is over 70.

The introduction of the Package Deal in October 1973 linked with the fortuitous improvement in tea prices has helped to restore some confidence to the tea industry. The Package Deal consists essentially of the following:—

(a) Assistance to tea producers in the form of subsidies, rebates and credit to ensure the economic viability of the industry for which a sum of Rs. 125 million is provided annually over a five-year period;

(b) Statutory obligation on the part of all owners of tea lands to maintain and develop their holdings in conformity with the norms set out by the Government.

Assistance to tea producers under the Package Deal for the rehabilitation and development of the industry is estimated to cost Rs. 625 million during the five-year period 1974-78. The annual outlay amounts to Rs. 125 million and consists of the following prorammes:—

(a) The supply of tea chest panels to tea factories at a subsidised price;

(b) The issue of tea fertilizer to all tea lands at a special price;

(c) An enhanced subsidy ranging from Rs. 3,750/- to Rs. 4,750/- per acre for replanting seedling tea with high-yielding varieties of clonal tea.

In addition to the above assistance, a Credit Guarantee Scheme to facilitate the grant of credit financed by Commercial Banks to tea estates has also been instituted. Under this scheme, the Government underwrites to the Commercial Banks any defaults up to 75% of each approved loan granted to tea estates and factories.

With the introduction of the Package Deal there has been a definite improvement in the standard of cultivation in the tea estate sector. Teething troubles, however, associated with changes in ownership and management have affected the small-holdings sector. Consequent on the enforcement of the recent legislation, under the Tea Control Act, fertilizer consumption on all tea lands has increased by 20% in 1974 over the 1975 figure. 1975 should see a further improvement. Production for the first three months in 1975 is the highest since 1969. Favourable weather conditions contributed chiefly to the increased crop, but part of the improved productivity lies in the larger investment made under the Package Deal.

If the tea industry in Sri Lanka is to continue to play a commanding role in the economy of the country it is essential to press ahead with (her) efforts to consolidate and strengthen (her) national tea industry through the assistance given under the Package Deal.

On the international tea scene there is a possibility, although it appears remote at present,of securing co-operation among tea exporting countries on a slightly different basis than has been considered possible in the past.

Supplies to the world market can be restricted by tea exporting countries in one of several ways:—

(a) A physical cut-back in supplies;

(b) A Minimum Price Export Scheme which will bring about a reduction in the volume of exports;

(c) A curtailment of potential production by limiting expansion in cultivation.

It may be that the operation of a Minimum Export Price Scheme by (say) Sri Lanka, a limitation of expansion programmes by Kenya, a cutback in exports by India, coupled with a contribution to India by other countries to compensate for her loss of export earnings and disproportionate contribution to a global tea promotion campaign by Indonesia could form the elements of a new approach in hammering out concord between the four principal tea exporting countries.

RUBBER

During the last 2 years rubber prices have shown the same volatility that had characterised this commodity over the last 25 years. Yet it was only in the last two years that the problem of exercising control over international rubber prices was seriously taken up by the rubber producing countries under the Association of Natural Rubber Producing Countries (ANRPC). These countries are Malaysia, Indonesia, Thailand, Sri Lanka, Viet-Nam and Singapore which account for over 80% of the world natural rubber production. Before discussing the approaches made by these countries in the area of price stabilizaton, it will be useful to briefly review the events that have overtaken this commodity since the oil crisis.

Towards the end of 1973, the demand for rubber (both Natural Rubber and Synthetic Rubber) was affected by the slow-down of industrial activity in the developed countries. Rubber prices both Synthetic Rubber and Natural Rubber were, therefore, expected to weaken. However, the availability of chemical feed-stock for SR production was severely curtailed by the oil crisis. At that time it was widely believed that apart from the three to four-fold increase in the oil price, oil supplies would continue to be rationed or even cut-off to certain countries. NR, therefore, temporarily benefited from the scarcity of SR. NR prices surged upwards in a market where speculators were also busy, reaching a record price of 55 US cts./lb. at the beginning of 1974 (RSS.I, c.i.f., N.Y.) compared to 23 US cts./lb. an year earlier.

During the course of 1974, the crude oil supplies which were earlier threatened became progressively more and more available and the supply of feedstock to the SR industry became assured. The prices of SR reflected the price increase in oil and SBR 1500 (a basic synthetic rubber) moved from market prices of 17-20 US cts./lb. to 30-33 US cts./lb. But it was clearly apparent that the premium prices paid for NR over SR could not be maintained any longer. Overhanging this was the recession in Western Europe and the decline in real incomes in the U.S. and Japan which choked the world demand for all elastomers (NR and SR). Car production and sales were slashed (by 25% in the U.S. alone) contributing to a slump in the consumption of all rubbers. During the course of the year (1974) therefore the supply/demand position for NR was completely reversed from one of excess demand at the beginning of the year to one of excess supply during the last quarter. Prices of NR plunged to 27 US cts. per lb. (RSS.I, c.i.f., N.Y.) at the end of the year with futther falls being predicted.

In November 1974 the Malaysian Government intervened through production cut-backs (compulsory 2-week tapping holidays and banning of ethrel) and the enforcement of increased stock holdings at dealers level in order to protect the prices of NR from further falls. In the five-year period preceding 1973, world NR production increased at an annual average rate of about 5.0%. The total production in 1973 was 3.5 million tons. Due to slackened demand in 1974 and the efforts of the Malaysian Government in withholding supplies the total production in 1974 was held at 3.5 million tons. Preliminary estimates for NR consumption indicate that the figure of 3.5 million tons will not be exceeded in 1975. The growth rate has been virtually zero. The short-term outlook for NR does not look bright. Excess capacity in SR industry will also maintain a depressing effect on NR prices in 1975. However, the long-term picture for world demand is much brighter. With improved economic conditions being restored in the developed countries the demand for NR is expected to increase (an annual rate of 4.5 to 4.9% is forecast from 1976 - 1980) and prices should improve moderately above 1974/75 levels.

Improvements in yields will account for most of the growth in the NR output in 1980 (estimated output 4.9 - 5.0 million tons). The share of NR in the world rubber market is estimated to move slightly from the current figure of 31% to 33%. If the remainder of the projected demand for elastomers in 1980 is to be made up by SR, the industry will have to operate at close to full capacity (85%) compared with the historical average of 75%. The supply position of SR is going to be tighter in the future than in the past for the following reasons, viz.,

(1) increased depreciation costs of now high-cost plants;

(2) increased raw material costs;

(3) increased pressure on wage costs;

(4) higher costs for ecological controls.

NR producers can, therefore, confidently expect to obtain reasonable prices for their product in the long term. (The World Bank forecasts about 57 US cts./lb. in 1980).

It has been recognised that international action to stabilize prices of NR, which are notorious for their violent fluctuations, will be a boon to NR producing countries. Consumers too would welcome stable and equitable prices for NR. An international buffer stock scheme appears to be crucial to long-term price stability for NR. During the period of falling NR prices the Malaysian Government mooted 2 complementary schemes. They are:—

(a) An International Buffer Stock Scheme which will operate by mopping up surpluses in the open market or releasing stock-piles to meet deficits, thus ensuring a balanced supply/demand position given an agreed and reasonable price range from NR. This price level should not be high enough to attract excessive investment in SR capacity and not too low as to prove ineffective;

(b) A Supply Rationalization Scheme which is essentially a cut-back in the supplies position if NR prices sink to uneconomic levels.

These proposals were taken up for consideration by the member-countries comprising the Association of Natural Rubber Producing Countries. A number of meetings were held in the last 12 months to try and harmonize the views of the member-countries. Here again, it has not been possible to compose the differences among the member-countries. The principal difference lies in the priority that should be accorded to the International Buffer Stock Scheme and the Supply Rationalization Scheme. Malaysia supported by Sri Lanka would like greater prominence being given to the International Buffer Stock Scheme with the Supply Rationalization Scheme really being a second line of defence. They argued that it would be dangerous to give precedence to "supply rationalization" as in the long term NR will lose ground to SR through build-up of SR capacity. However, this view is not fully supported by the other member-countries.

The different views can be summarised as follows. Some consensus was reached among the member-countries that rubber prices should be stabilised through the operation of an International Buffer Stock Scheme under which a given price level (145 Mal. cts. per Kilogram for RSS.I) should be defended by purchasing rubber from the international market when prices fall below this level. If prices continued to fall below 120 Mal. cts per kilogram in the international market, the International Buffer Stock Scheme should be supplemented by the Supply Rationalization Scheme. This is in effect a restriction on exports placed on different member-countries. The size of the buffer stock was of paramount importance in deciding the degree to which export quotas are expected to be used. It is evident that extensive use of export quotas would reduce the need for international stocks. Malaysia supported by Sri Lanka favoured a stock of 350,000 tons. In view of the reluctance of other countries to accept this figure, the size of the buffer stock was reduced to 100,000 tons; the balance being taken care of through the application of annual export quotas. In other words, greater priority is to be given to the Supply Rationalization Scheme. It might be pertinent to mention here what the UNCTAD Report on an Integrated Programme on Commodities says about rubber which has been chosen as one of the core commodities meriting urgent action through commodity stocking. In this Report the UNCTAD estimates that the minimum stock level for rubber should be 375,000 tons. This would imply that the effectiveness of an International Buffer Stock Scheme would be diluted if the stock is only 100,000 tons. It was, however, argued at the meetings held by the ANRPC that it is better to start the international buffer stock with even a minimum quantity and build it up later in the hope that the operation of this scheme would mellow the attitudes of the member-countries who were presently not disposed to having a larger buffer stock. Another area in which no agreement could be reached was the placement of the buffer stock. At the last meeting some member-countries argued that the buffer stock should be held in different countries as national stocks. This would mean that the buffer stock was not to have any international flavour at all but would merely constitute stocks held in each member-country. It was pointed out at the meeting that if stocks were to be held nationally and not centrally the Buffer Stock Scheme will be so diluted as to have no effect at all on the international natural rubber price. Moreover, the Natural Rubber Price Stabilization Scheme would reduce itself to an "export quota type scheme". Doubts were expressed as regards the feasibility of administering a Supply Rationalization Scheme in view of the incompleteness and lack of uniformity of export data, smuggling across national borders, the time-lag involved in presentation of accurate statistics for a given period, and the high frequency of change in market conditions which renders the monitoring and supervision of the agreement extremely difficult.

Two meetings of the Sub-Committee on Natural Rubber Price Stabilization have been held this year under the aegis of the ANRPC but no concrete results have been forthcoming. The third is scheduled to be held at the end of this year. It is hoped that progress will be achieved at this meeting in obtaining a greater measure of agreement on the basic issues. Until such agreement is reached it would be difficult to obtain the financial assistance outlined in the UNCTAD Report on an Integrated Programme on Commodities.

THE EXTERNAL DEBT PROBLEM—SRI LANKA'S CASE IN THE CURRENT INTERNATIONAL SETTING

*NIHAL KAPPAGODA**

Introduction

This paper will be in two parts. The first will deal with the international setting in which external debt problems of developing countries are being discussed. The second part will deal with Sri Lanka's debt position, an analysis of whether a problem exists, what remedial measures could be taken within the existing international framework and a possible position that Sri Lanka could take at the forthcoming UNCTAD IV meeting in Nairobi next year on external debt and debt renegotiation.

The need for higher levels of resource transfers from abroad for developing countries arises due to the inadequacy of foreign exchange earnings to meet the import needs of increasing populations, raw material needs of existing industries and of new investments, both infrastructure and productive, required to meet their long-term developmental objectives. What is relevant is the country's import capacity which is dependent on a number of closely related variables, namely, export earnings, the net long-term inflow of capital and the terms of trade. The net long-term capital inflow includes grants and loans from both official and private sources abroad, and foreign investments (excluding reinvested earnings) less payments of interest

* Paper presented at the Sri Lanka National Seminar

and amortization of loans and profits and dividends on foreign investments. It is this variable and its component items and the possibilities that exist for international action in respect of these to enable import capacities of developing countries to match import needs, which would be discussed in this paper.

Recent discussions on the New International Economic Order following the sharp increase in oil and food prices over the last two years, have brought into focus once again the inadequacy of external resources available to developing countries. As part of this analysis, considerable discussions have taken place at the international level on the external debt problems of these countries. The Committee on Invisibles and Financing related to Trade of the United Nations Conference on Trade and Development established an Ad Hoc group of governmental experts on the debt problems of developing countries to study factors affecting future levels of debt-servicing obligations and measures which could be taken to keep such obligations within manageable levels, without harming the developmental objectives of developing countries. The export group was expected to consider these problems in a manner which would safeguard the legitimate interests of creditor countries as well as the developmental objectives of debtor countries. The report of this expert group which met in Geneva in February/March 1975, was presented to the Trade and Development Board of UNCTAD at its fifteenth session held in August this year and I will refer to the contents of this paper later. More recently, the Seventh Special Session of the United Nations General Assembly adopted the following resolution in 1975: "The burden of debt on developing countries is increasing to a point where the import capacity as well as reserves have come under serious strain. At its fourth session the United Nations Conference on Trade and Development shall consider the need for a possibility of convening, as soon as possible, a conference of major donor, creditor and debtor countries to devise ways and means to mitigate this burden, taking into account the development needs of developing countries, with special attention to the plight of the most seriously affected countries". Therefore in preparation for UNCTAD IV, a discussion of the debt problem in Sri Lanka and the possibilities of an international effort to seek remedial action is timely.

THE INTERNATIONAL SETTING

General Comments

Usually, foreign exchange crises of developing countries are looked at in a very short-term context, which by their very nature is unavoidable. This means that the structural and long-term reasons for the cause of the crises are never analysed and taken full account of in devising measures to tackle them. The general assumption that foreign exchange crises are caused by mismanagement on the part of developing countries is an over-simplification of the problem, though mismanagement may in part be a contributory factor but it is by no means the only reason. One could point to two reasons which would be basic causes of a foreign exchange crisis. As stated in the report[1] by the UNCTAD secretariat entitled "Debt Problems in the Context of Development", we could have situations where there is a divergence between the realised economic returns on investment financed by foreign loans and the terms of such loans and situations where there is a divergence between foreign exchange needs and actual availability. In the first case, as very often happens, project appraisal is based on the expected realisation of final output, prices for such output, as well as the costs of labour and other inputs. Quite apart from the technical estimates which may be in error, these factors also increase the margin of error. Although in the project appraisal stage, the return on an investment may be shown to be adequate to service the foreign loan which is used to finance the investment, when these expectations are not realised, foreign exchange savings or earnings from other investments would have to be earmarked for servicing this debt. It would be no exaggeration to state that if all estimates of foreign exchange savings or earnings of new investments as given in project proposals, are all borne out, many developing countries would be well on the road towards financial and economic independence from donor countries. The second basic cause for foreign exchange crises is errors in estimating the demand for imports as well as of foreign exchange availabilities. It is possible that production targets of import substitution programmes may not be realised, leading to a higher demand for imports. Unexpected crop failures may be a reason for production shortfalls. If such cases

1. Debt Problems in the Context of Development: Report by the UNCTAD Secretariat, United Nations, 1974.

coincide with similar shortfalls in other producing countries, there would be the compounded adverse effect due to higher world market prices that would prevail. Countries faced with such a market situation in the context of a production shortfall would have no option but to increase the foreign exchange outlay on this commodity, if it is a critical item whilst cutting back on other items or programmes. Another adverse situation a developing country like Sri Lanka would face would be the formation of cartels such as OPEC (Organisation of Petroleum Exporting Countries), which caused oil prices to quadruple in a manner not related to domestic or world market production. In such an event too, if the item is a critical commodity, the country would be forced to incur additional foreign exchange outlays, whilst cutting back in other sectors. On the side of foreign exchange earnings, a similar situation could arise where a developing country exports commodities which are subject to sharp fluctuations in world market prices. In cases where overall supply and demand are in balance, over-production by a major supplier could upset the entire world market situation, leading to a sharp decline in price. For many commodities traded in world markets, the amount that enters world trade is only a small fraction of total production. As domestic consumption very often accounts for the bulk of total production, any fluctuations in total production would have magnified effects in the world market due to the small proportion of the commodity that enters world trade. A good example of this would be cereals such as rice and wheat.

Mobilisation of External Resources

Faced with a critical foreign exchange situation, developing countries could do one of several things. They could attempt to mobilise additional foreign exchange resources through a co-ordinated aid programme in the context of a sound development programme which is production-oriented, resort to commercial borrowings attempt to reschedule its foreign debt payments or curtail imports with detrimental effects on economic growth. A major aid effort, even if sponsored by an international institution such as the World Bank, could be time-consuming and may not yield substantial additional resources in the short run, during the period they are urgently required. The process of negotiating loan agreements following the convening of an aid group or consortium, could take the better part of a year, unless both donors and recipients are willing to reduce their normal bureaucratic requirements associated with the negotiation and disbursement of loans. Another inhibiting factor is that aid is often tied to specific projects and unless these are directed to high priority sectors and would in any case have been implemented in a crisis situation, such assistance would not yield any immediate relief to a country undergoing balance of payments difficulties. Substantial relief could only be received through a co-ordinated aid programme within a short period of time, if donors are willing to commit a substantial proportion of their assistance for quick disbursing commodity or food aid associated with only a minimum of procedural requirements.

In the absence of such assistance, countries may be able to overcome their short-term problem by resorting to commercial borrowings in foreign capital markets, which of course have shorter term maturities. Their ability to do so would depend basically on their credit-worthiness abroad, as well as on short-term factors, peculiar to the circumstances of each country. This is seen from the composition of commercial debt outstanding at the end of 1971, where commercial borrowings of countries with a per capita income of over US $ 500 accounted for 53 per cent of the total debt outstanding. The percentage is lower for poorer countries.

TABLE 1 [2]

Composition of Debt Outstanding in 1971 According to Per Capita Income of the Recipients in That Year

Income per Capita ($)	*Number of countries*	*Percentage of total GNP*	*Percentage of total debt**	Percentage composition of Debt: *Bilateral official*	*Multilateral institutions*	*Private*	*Total*
100 or less	15	4.2	9.5	76.9	9.6	13.5	100.0
101 - 200	17	21.7	23.6	68.5	23.2	8.3	100.0
201 - 300	14	10.4	11.9	54.7	16.9	28.4	100.0
301 - 500	18	26.0	28.7	44.4	22.2	33.4	100.0
501 & above	17	37.7	26.2	25.0	21.4	53.6	100.0
Total	81	100.0	100.0	49.3	20.4	30.3	100.0

Source: World Bank Atlas, 1973 and IBRD/IDA, Annual Report, 1973, Statistical Annex.

* Including amounts undisbursed.

2. Debt Problems in the Context of Development (op. cit.), Table 2, page 6.

A new development over the last few years in the availability of private capital has been the evolution of Euro-currency markets, which have become additional sources of funds for developing countries. The recent foreign exchange surpluses generated by oil producers have been an additional source of supply to these markets. Although it is now likely that these surpluses would not continue to grow indefinitely, this source of supply would be a major one for the Euro-currency markets. The attractiveness of private capital to developing countries in overcoming their short-term balance-of-payments problems is the untied nature of these funds, as well as the minimum of red tape that is normally associated with the negotiation of these loans in comparison to loans from official sources. However, the costs of such borrowings are heavy; the repayment periods are of 5-10 years duration from the date of borrowing, with market rates of interest being payable generally, though in some cases, they could be as high as 15 per cent. This leads to the obvious conclusion that commercial borrowing, although a short-term palliative to a country's balance-of-payments problem, is no substitute for long-term development assistance, if the country is to avoid a major debt repayment problem in the years ahead.

Volume and Terms of Assistance—Action by the Development Assistance Committee of OECD

It would now be useful to discuss the volume of assistance transferred to developing countries and the terms on which such transfers are made. The 1974 Review[3] of the Development Assistance Committee of OECD[4] states that over the ten-year period 1963-73, the increase in output of DAC member-countries was two-thirds in real terms and 50 per cent on a per capita basis. However, during this period, the real value of official development assistance decreased by 7 per cent and on a per capita basis receipts of foreign assistance by developing countries declined by 30 per cent.

The International Development Strategy of the Second United Nations Development Decade specified that each economically

3. Development Co-operation 1974 Review: Efforts and Policies of the Members of the Development Assistance Committee, OECD, Nov. 1974.

4. Members of the Development Assistance Committee of the OECD are Australia, Austria, Belgium, Canada, Denmark, France, Germany, Italy, Japan, the Netherlands, New Zealand, Norway, Sweden, Switzerland, the United Kingdom, the United States and the Commission of the European Economic Community.

advanced country should endeavour to provide resource transfers annually equivalent to a minimum net amount of 1 per cent of its GNP at market prices in terms of actual disbursements. The net amount referred to here is equivalent to the net capital inflow defined on page 1 of this paper. Recognising the importance of official development assistance (ODA)[5] to developing countries, in view of its concessional nature, the Strategy has further specified that each economically advanced country should increase its ODA and endeavour to reach a minimum net amount of 0.7 per cent of its GNP at market prices by the middle of the decade. If one examines the statistics for 1973, it is seen that five countries of the Development Assistance Committee of the OECD met the target for total net flows (Belgium, France, Japan, the Netherlands and Portugal), whilst none complied with the target for ODA in that year. For purposes of illustration, the ratios for DAC countries who are members of the Sri Lanka Aid Group, are given in Table 2.

TABLE 2[6]

Net Flows from some DAC Countries as a Percentage of GNP (1973)

	Total Flows	*ODA*
Australia	0.55	0.44
Canada	0.93	0.43
Denmark	0.70	0.47
France	1.10	0.58
Germany	0.51	0.32
Italy	0.46	0.14
Japan	1.42	0.25
Netherlands	1.03	0.54
Sweden	0.73	0.56
United Kingdom	0.61	0.35
United States	0.64	0.23
Total DAC	0.79	0.30

5. Official Development Assistance includes grants, loans and export credits extended by official agencies abroad.

6. Development Co-operation (op. cit.), page 116, Table VII-1.

The total net flows from DAC countries was US $ 24.4 billion in 1973 and if the 1 per cent target was to be met, it would have required additional transfers totalling US $ 6 billion. The available statistics on total aid flows indicate that until 1973, DAC countries accounted for 90 per cent of total bilateral flows (excluding Euro-currency flows) and these same countries accounted for nearly 90 per cent of the financial resources made available to multilateral institutions. In the post 1973 period, the surpluses of oil producers will undoubtedly change the overall picture. The main cause for concern in regard to the debt position of developing countries is the low proportion of ODA in the total flow of resources, as this is the concessional component. Its share was only 38 per cent in 1973 compared to two-thirds, a decade earlier.

Given the importance of DAC countries in the transfer of resources to developing countries, the terms of their assistance is important to the debt position. In realisation of this, the DAC has, since 1965, adopted various resolutions on the terms of aid, intended to soften the terms of assistance, in addition to the conditions adopted under the International Strategy for the Second Development Decade. According to the 1972 Recommendation on Terms and Conditions of Aid, DAC members are expected to reach and maintain an average grant element[7] in their total ODA[8] commitments, including grants and loans, extended to all developing countries each year of at least 84 per cent. However, countries whose ODA commitments as a percentage of GNP are below the DAC average will not be considered as having met the terms target, even if their grant element is 84 per cent or more. If we look once again at the DAC countries who are members of the Sri Lanka Aid Group (Table 3) it is seen that Italy, Japan and the United States did not satisfy the test. In the context of moves towards relaxing the terms of assistance, what is important is an increase in the volume of ODA on concessional

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7. The grant element of a loan is calculated by deducting from its face value the discounted present value of amortization and interest payments, the difference being expressed as a percentage of the loan's face value. A 10 per cent rate of discount is used by the Development Assistance Committee in calculating the grant element.

8. The Development Assistance Committee defines ODA flows as those originating in an official agency of a donor country administered for the promotion of economic development and welfare of developing countries as its main objective. It is concessional in character and contains a grant element of at least 25 per cent.

terms to avoid debt problems from becoming unmanageable in the future.

TABLE 3 [9]

Grant element of ODA commitments and compliance with the 1972 terms and recommendation of some DAC countries (1973)

	Grants as percentage of ODA	*Overall grant element*	*Volume test*
Australia	99	99.4	0.56
Canada	47	94.1	0.75
Denmark	79	96.1	0.62
France	84	91.2	0.70
Germany	54	83.1	0.46
Italy*	54	69.3	0.14
Japan	40	67.9	0.33
Netherlands ...	71	88.4	0.61
Sweden	93	98.6	0.82
United Kingdom ...	62	87.1	0.45
United States ...	68	89.9	0.34
Total DAC ...	66	86.9	0.42

* Italy has not accepted the 1972 Recommendation.

It is with this background that I now turn to an analysis of options available to developing countries who have reached an acute stage in meeting their debt service obligations.

The Need for International Machinery to Examine Debt Problems

The debt problems of developing countries have in recent times been complicated by developments in the world economy. Specifically, I refer to the effects of inflation, currency realignments and the rise in commodity prices. The rates of interest charged on loans do not usually take account of the expected inflation rates as these

9. Development Co-operation (op. cit.), Table VII-5, page 121 and Table VII-7, page 123.

cannot be forecast accurately for the future and the overall impact of inflation on a debtor country would depend on the movement in the terms of trade; the extent to which prices of its export products have risen vis-a-vis import prices. Even if the effect of the terms of trade is neutral, inflation in a creditor country would be beneficial to a debtor country since capital and interest payments are then made in a depreciated currency.

The position has been further complicated by the currency re-alignments that have taken place since August 1971. Although many debts are conventionally expressed in US dollars, it is dominated in about 40 different currencies—around 50 per cent in US dollars, 10 per cent in German marks and some 4 per cent in Japanese yen. The real effect of currency realignments on debt payments of developing countries would depend on the relative adjustments of the currencies in which their debt is dominated vis-a-vis the movement in the prices of their exports.

The third factor referred to above has been the sharp increase in commodity prices, as a result of which some developing countries have emerged as net gainers whilst others have emerged as net losers many of them being rather adversely affected. In the former category are the OPEC countries and those countries who have benefited from the boom in cereal prices. Some of the countries adversely affected have generated additional export earnings to meet the higher foreign exchange expenditures. Others have drastically curtailed non-essential imports and fallen back on reserves, if available, and short-term borrowing facilities such as those offered by the International Monetary Fund. Once these lines of defence have been fully exhausted, developing countries could resort to commercial borrowings in foreign capital markets, the capacity to do so being dependent on an assessment of their current credit-worthiness or by seeking additional aid of a quick disbursing nature, the possibilities of doing so being severely limited as described in the preceding section. It is in such situations that debt rescheduling becomes an important policy consideration for developing countries who, apart from experiencing foreign exchange shortages to meet their normal development needs, also face short-term difficulties caused by the recent trends in the world economy.

There is now an increasing need to consider setting up appropriate international machinery to examine the debt problems of developing countries and measures for rescheduling debts. From a recipient's point of view, relief obtained by rescheduling has essentially the same effect as additional foreign aid, though it has the advantage of making untied foreign exchange resources available unlike new aid which would be tied to the source as well as to items. However, the disadvantage is that debt relief measures entail lengthy negotiations, more bureaucratic and cumbersome than the negotiation of new aid programmes. Apart from the need for the debtor country to satisfy donor countries that domestic policies are viable and would lead to the ultimate goal of economic independence, an accepted formula has to be worked out whereby creditor nations would share the burden of rescheduling. From the experience gained in many multilateral agreements for rescheduling the debt of nine developing countries, it has been found to be extremely difficult to arrive at a mutually acceptable formula to all donor countries, taking account of their past volume of assistance as well as the terms of such assistance.

In the light of the special economic difficulties that have arisen over the last two years, it has become necessary to consider debt relief operations in the same way that aid programmes are handled, in the context of the long-term development of the country concerned. So far creditor countries have resisted setting up institutional arrangements for debt rescheduling for a number of reasons. First, there is the belief that debtor countries would relax their standards of economic management or resist taking corrective measures which would accompany debt relief.

This argument is not valid as the rescheduling of debts would need to be accompanied by specific measures to improve the economic performance of the country concerned in the same way that measures are taken to negotiate a new aid programme. A second objection is that the setting up of institutional arrangements would lead to the expectation that there would be an automatic rescheduling of debts by developed countries, once recipient countries have reached a given debt service level. Here again the argument is not valid since strict economic management would be a pre-condition for a rescheduling operation to be supported. A third argument is that a debtor country would use a rescheduling operation to convert short-term commercial debt into medium or long-term debt by the rescheduling process. This argument is based on grounds of equity that countries capable of accumulating large short-term debts would be the countries who are capable of exploiting their access to the financial markets abroad, and a rescheduling of their debts would divert resources away from countries who are much poorer and have economies which are less viable and in the normal course of events would be recipients of larger volumes of development assistance than others. Many of these arguments clearly indicate that generalised rules and procedures for rescheduling debt would be difficult to introduce although the need clearly exists for international machinery to be set up and acceptable guidelines of a broad nature to be drawn up.

Remedial Measures

Pending the achievement of this objective, there are certain policies which can be adopted both by donor countries and recipients to alleviate the debt problems of poorer countries. The debtor country whose responsibility it remains to service their past obligations, should adopt appropriate fiscal, monetary, exchange rate, export promotion and project selection policies within the context of a sound development programme. Foreign assistance should not be used as a substitute for mobilsing domestic savings and new projects should not be financed using foreign loans, unless their rate of return would be more than adequate to service them and leave a surplus to meet other foreign exchange obligations. In this context, it is questionable whether short-term borrowings, e.g. from the Euro-currency markets, should be utilised beyond a certain limit to finance the larger outlays on food and oil imports. Whilst it is true that developing countries are at the receiving end of such unilateral increases in prices, financial prudence would indicate that the use of short-term borrowings to finance the entire additional burden would go beyond the limits of sound economic management. It is also necessary to set up machinery in debtor countries to authorise and record all foreign credits obtained by domestic agencies from non-official sources abroad, in the same way that official debt is recorded. A case in point is the foreign exchange crisis that developed in Indonesia as a result of the state petroleum agency, Pertamina, incurring large short-term debts because of its extensive activities both in the oil sector as well as in others, which did not have either government approval or any record kept in the Central Bank or the Ministry of Finance. This is one of the first steps that require to be taken by debtor countries fairly early in the process of accumulating external liabilities and it is more necessary now than in the past due to the greater availability of private funds mainly in Euro-currency markets, due to the oil surpluses generated over the last two years.

On the part of the donors, the volume of official development assistance could be increased whilst relaxing the terms of such assistance. If however, debt rescheduling operations are taken up within the framework of a given volume of assistance, it is necessary to ensure that concessional funds are not directed towards developing countries who are relatively better off, as this would make the problem of poorer countries even more acute than at present. The second step that could be taken by donor countries is in regard to export credits extended to developing countries. Although aid programmes are essentially concerned with development and export credits with export promotion, a greater control by creditor countries of the latter could ensure that export credits complement the flow of official assistance on concessional terms both in terms of volume and terms, without exacerbating the debt problem of a recipient country. It is recognised that the action that could be taken by creditor countries is limited. Interest subsidies are often used to soften the costs of such credits, but a major step that could be taken would be to require such credits to be approved by the aid agency in the creditor country, who would make an assessment of the contribution such credits would make to the overall development of the debtor country. Such a policy would undoubtedly work against the creditor country's export promotion programme and would involve a sacrifice on their part to turn down the possibility of a sale on the grounds that it is not in the interests of the debtor country. In the present context of severe international competition for the sale of equipment and machinery, it is unrealistic to expect much co-operation from creditor countries and therefore the responsibility for curtailing the volume of credits would remain with the recipient country. It is for this reason that private credits should require the prior approval of the central financial authorities in the recipient country, whose responsibility it would be to assess the impact on the economy of imports to be financed using such credits. However, in a situation where a country is desperately short of foreign exchange resources, the principles of prudent financial management may have to be sacrificed in the interests of operating existing capacities in the country and maintaining current employment levels.

In the broader context, the main role that creditor countries could play in alleviating the debt problems of poorer countries is in the field of trade, by providing market opportunities for the products of developing countries and reducing import restrictions on such products. The preceding analysis indicates the need for mutual cooperation between creditor and debtor countries in seeking higher standards of living for the countries of the Third World. The interdependence of the two groups of countries has been clearly demonstrated and it is not in the interest of any particular country to follow policies which are dictated merely on grounds of self-interest, rather than in the interests of achieving higher standards of living for people not confined within geographical boundaries.

Debt Rescheduling Experiences

Before analysing the usefulness of debt rescheduling for a country experiencing balance-of-payments difficulties and the conditions under which such an exercise would be beneficial, it would be useful to outline briefly the experience of countries that have had debt renegotiations over the past 20 years. These have been Argentina, Chile, Peru, Brazil, Ghana, Turkey, Indonesia, India, Pakistan and the Khmer Republic. Generally, the type of debt that has created problems for these countries has been commercial debt related to export credit financing. Nevertheless the governments of donor countries became involved due to export credit guarantee schemes, so that when payments fell into arrears, the creditor is reimbursed for the insured portion of the debt by the export credit agency, thereby leading to a direct involvement of the government in such defaults.

The general practice for convening meetings for the discussion of debt renegotiation has been for countries facing serious debt-service problems to approach the major creditors direct and in many instances, meetings have been convened after the declaration of a moratorium on payments by the debtor countries. In some cases the creditor countries have chaired such meetings, whilst in others international agencies such as the International Monetary Fund and the World Bank have done so.

From records that are available of these meetings, they follow very much the pattern of an aid consortium, with a meeting of creditor countries amongst themselves, followed by a presentation by the debtor country on the current economic circumstances and the steps leading up to the crisis situation. Thereafter, representatives of the IMF and the World Bank are requested to make statements outlining their interpretation of the current crisis and the prospects facing the country in the immediate future. These meetings usually end up with a set of Agreed Minutes outlining the arrangements reached. They would cover the type of debt for which relief is to be provided, the percentage of consolidation and the repayment terms, along with in some cases the rate of interest to be charged during the moratorium period though generally these are left to bilateral negotiations. In such negotiations, the moratorium rate of interest is expected to be closely in line with the creditor's domestic commercial rate, though in some cases a maximum rate of interest is stipulated in the Agreed Minutes.

Amongst the usual conditions for a debt rescheduling would be a Standby Agreement with the International Monetary Fund, stating the steps to be taken to restore economic balance in the country. In many cases a most favoured nation clause is included whereby the debtor country agrees not to settle for less advantageous terms in debt renegotiations with creditors not participating in such an exercise. This often creates problems in negotiations with other creditors, but at the same time provides a good bargaining platform for the debtor country. Some arrangements also indicate a willingness to entertain further requests for debt rescheduling after a period of time; but such a clause is not binding as it would have to be considered on the merits of the case at the appropriate time.

Although these meetings would agree on the broad terms and conditions for debt renegotiation, it is left to bilateral negotiations to settle the final terms for debt consolidation and the repayment terms. The procedures that have been followed are by and large different.

Of the countries for whom debt rescheduling operations have been conducted, six have been for countries with aid co-ordinating groups and for three of them these exercises have been conducted under the umbrella of the aid groups.

One of the crucial factors regarding debt rescheduling is the time period that elapses between the original request for rescheduling and the final agreement in response to this request. A debt rescheduling request is made in the context of an urgent balance-of-payments crisis and if these requests are not acted upon with urgency, they would be catering to a different type of problem when final agreement is reached. The experience of India and Pakistan indicate that considerable delays occur and the following paragraph from the UNCTAD report entitled "Present Institutional Arrangements for Debt Renegotiations"[10] illustrates this: "In the case of India the first request for debt renegotiation occured in 1964, and the question also arose in the 1965 meeting of the consortium. Some relief was provided for fiscal years 1969-71, some donors deducting this relief from regular aid. A broader relief exercise was agreed upon in mid-1972, to become effective commencing fiscal year 1973. In the case of Pakistan relief was first formally requested at the 1968 meeting of the consortium. Relief was not provided until May 1972 and occurred in the face of a moratorium imposed by Pakistan in May of the previous year. By the end of 1972 bilateral agreements had been reached with all consortium members. This was a short-term relief operation and recognised as such. The objective was a long-term settlement to be effective from 1 July 1973. However, by 31 July 1973 another short-term relief operation had to be signed. In May 1974 an agreement providing for substantial longer term relief was signed".

If one looks at the experience of countries which have undergone debt renegotiations, it is seen that in the period prior to the renegotiation of debt, they achieved modest rates of economic growth. Considerable political pressure existed for accelerating the pace of economic development and therefore additional resources were required to achieve this objective. Most of the countries had high rates of capital accumulation, but they were concentrated on projects which had long gestation periods and therefore did not provide any

10. Present Institutional Arrangements for Debt Renegotiation: UNCTAD TD/B/C.3/AC.8/13.

short-term relief to the supply position, whilst increasing the pressure on the country's balance-of-payments. Therefore, it was the inability to obtain a net transfer of resources of an adequate magnitude that led to the request for debt renegotiation. In this situation, the countries could have curtailed domestic expenditures, especially those with a high import content, but this was contrary to the growth objectives laid down by the political leadership. They could have increased the level of borrowings from abroad but this was dependent on the aid policies of donors and the access to private capital markets abroad for the countries concerned. The third alternative was to declare a moratorium on repayments and in the case of countries which took such a course of action, this appeared to be the only feasible alternative.

International Action: The Report of the Expert Group

The Ad Hoc Group of Government Experts on Debt Problems of Developing Countries in its report[11] to the Trade and Development Board of UNCTAD suggested various arrangements which would form a common framework for debt renegotiations in future, though fully aware that modifications and exceptions to this common framework would have to be made on the merits of each case. The elements of the common framework as outlined in this report are the following:[12]

"(i) Debt reorganisation would take into account the development prospects of a debtor country, thereby enabling it to continue debt servicing payments and restore its credit-worthiness;

(ii) Such reorganisation would be conducted in the customary multilateral framework with the intent to conclude agreements as speedily as possible in order to avoid prolonged uncertainties regarding foreign exchange availabilities

(iii) Equality and non-discrimination among creditors is an essential principle underlying the operation of debt renegotiations. Creditor countries with minor debts due, which frequently include developing countries, would generally, however, be excluded from the multilateral debt renegotiation;

11. Report of the Ad Hoc Group of Governmental Experts on the Debt Problems. of Developing Countries on its Third Session: UNCTAD TD/B/C.3/AC.8/14

12. Report of the Ad Hoc Group (op. cit.), page 14-15.

(iv) The terms of debt relief, such as consolidation, repayment and grace period and the interest rate, would take into account the anticipated long-term debt-servicing capacity of the debtor country and the legitimate interests of the creditors;

(v) Debt reorganisation arrangements would provide for flexibility to review the situation at the end of the consolidation period in the light of unforeseen circumstances. They would also provide for accelerated repayments in an agreed manner if the debtor's economic situation improves more rapidly than anticipated".

After examining past experiences of debt rescheduling operations, the report proposed that a debtor country could convene a meeting with the assistance of UNCTAD or any other appropriate international institution, inviting the major creditor countries concerned and a number of developing countries, along with observers from the international Monetary Fund, OECD, Regional Banks and the World Bank. The report proposed that the meeting should be chaired by one of the developing countries represented and would draw up its own rules and procedures. The background reports for these meetings would be prepared by the debtor country concerned and the international institutions participating as in the case of meetings held earlier. This recommendation does not preclude the use of aid co-ordination groups to discuss debt rescheduling, though the meetings should be chaired by a developing country rather than the country or international agency sponsoring the Aid Group. The representatives of the socialist countries of eastern Europe who participated in the meeting of the expert group did not consider it useful for their countries to participate in ad hoc meetings to discuss debt rescheduling, as they pointed out that their credits have special features which are essentially of a bilateral character and therefore renegotiations with them cannot be carried out in an international framework. Further since they are not members of international agencies such as the World Bank, IMF and OECD any decisions taken by members of such institutions would not be binding on the countries of the socialist bloc.

Impact of a Debt Rescheduling Operation

It would now be useful to examine the conditions under which a debt rescheduling exercise could yield the results that are anticipated at the time the request is made. Several domestic policy measures are necessary to ensure the success of a debt rescheduling exercise. Policies should be adopted to increase the mobilisation of domestic savings and the allocation of resources for quick and high-yielding investments, particularly those which would have an immediate impact on the country's balance-of-payments. Policies should also be adopted to make the country's exchange rate realistic, so that they would complement vigorous export promotion policies of the government. The debtor country should encourage investment, both foreign and domestic, by appropriate incentives and at the same time set up institutional arrangements for the strict monitoring and approval of credits outside of official development assistance. In short, what is required is a framework for sustaining capital flows to the debtor country concerned.

What would be the impact of debt rescheduling on the country concerned? First, it would depend on the increment in import capacity that would result from the postponement of debt repayment. The impact on economic growth would depend on the ratio of relief provided to the total flow of external resources, as well as on the import content of new investments that could be undertaken as a result of the additional availability of external resources. A third factor which has to be taken account of is the direct impact on central government financing that would result from debt rescheduling, which could be substantial when a large proportion of the debt rescheduled represents direct obligations of the central government. To the extent that substantial resources are freed, additional investments could be made with these funds.

The impact of domestic policies and the additional foreign exchange resources made available by debt rescheduling would also depend to a large extent on policies adopted by donor countries abroad. Domestic policies can only be successful in a favourable external environment and to be completely successful would have to be accompanied by liberal trade policies of donor countries, as it is only by the generation of an increasing level of export earnings that a country's debt problems could be finally overcome. Other measures such as providing access to the financial capital markets of developed countries would be necessary and the provision of clauses in loan agreements, whereby debtor countries would be granted an agreed measure of relief, such as the postponement or waiver of amortization and interest payments, under certain agreed conditions.

Arrangements for debt rescheduling should provide for larger consolidation of debts and longer repayment periods, than have been provided in the past, as these measures should provide adequate time for the country to recover from the crisis situation which brought about the moratorium on repayments. The interest rates charged and the amount of relief provided should take into account the long-term prospects of the country concerned. As in the case of repurchases of IMF drawings, agreements could provide for earlier repayments of rescheduled debts, should the economic conditions of the country improve. On the other hand, should unforeseen circumstances such as bad weather conditions prevail in the post-renegotiation period, the arrangements reached should provide for longer repayment periods on an agreed basis. If one considers all the variables required to make a rescheduling exercise successful, the conclusion reached is that additional measures such as access to facilities of the IMF and other financial institutions would be required for the debtor country to fall back on, should the conditions anticipated at the time of rescheduling not be fully realised.

Another important factor to be taken account of in future rescheduling exercises is the willingness of international institutions, such as the World Bank and Regional Banks, to reschedule their debts, as these have been left untouched in past operations of this type. To the extent that a large proportion of a country's debt is owed to these institutions, the success of a debt renegotiation is undoubtedly limited, if they are not willing to renegotiate the terms of their loans.

SRI LANKA'S EXPERIENCE

Growth in the Debt Burden

When discussing Sri Lanka's external debt, I would like to analyse the sequence of events which led to the debt situation as it exists today. For this purpose, I have compiled three tables covering the ten-year period 1965-74 to illustrate the increasing dependence on foreign sources for financing imports, debt service payments and gross external liabilities outstanding at the end of each year. In preparing these figures, I have used published materials as far as possible, but any researcher in this field will realise that the compilation of time series data is a difficult task. I have therefore adjusted some figures to maintain consistency, which necessarily means that errors would have crept in, but since I am only using the orders of magnitude, they do not affect the arguments which follow. In particular, I wish to draw your attention to the paucity of information relating to short-term trade credits and suppliers credits in the early years of the ten-year period under reference, as these credits were not centrally recorded at that time and in any event had not been used extensively as a source of finance.

A major effort at mobilising external resources to finance the country's import programme began in 1965, with the setting up of the Aid Group for Sri Lanka under the chairmanship of the World Bank. At that time the Group included Australia, Canada, Japan, the United Kingdom and the United States as full members, with Germany and India attending as observers, along with the international institutions. Since then, this Group has expanded to include twelve[13] countries, including observers, with the addition of the Asian Development Bank to the list of multilateral donors.

The Group set up was not a consortium (which is a pledging group or a consultative group (which does not pledge) but it has effectively functioned as a consortium. The aid flows resulting from the first meeting of the Aid Group in July 1965 are reflected in the official aid figures for 1966, which show an increase of nearly 60 percent, compared to the previous year. The commitments made by the Aid Group have progressively increased over the period, with fluctuations from year to year depending on special circumstances, and along with assistance from Socialist Countries have led to a high level of official aid being made available to Sri Lanka. Table 4 illustrates the 4-5 fold increase in official aid receipts during this period, from Rs. 154 million in 1964 to Rs. 744 million in 1974. Current official aid levels on a per capita basis amount to over $7, which is high for independent countries receiving non-military assistance.

Similar landmarks are observed in the case of short-term trade credits and suppliers credits. For purposes of distinction, short-term trade credits have been defined as credits with maturities of up

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13. Australia, Canada, Denmark, France, Germany, India, Italy, Japan, the Netherlands, Sweden, United Kingdom and the United States.

to one year, whilst suppliers credits have maturities of over one year; generally in the range one to five years and more exceptionally in the range five to ten years. In the early sixties, Sri Lanka did not use suppliers credits to finance imports. Short-term trade credits were used mainly by the Food Commissioner to finance imports of rice from Burma and these credits were rolled over each year. The first major suppliers credit negotiated by Sri Lanka was for the Petroleum Refinery in 1966, which I recall cost nearly Rs. 110 million and imports from this contract were received in 1967 and after, for the duration of the construction period. This credit was repayable in five years and eminently suitable from the point of view of the Petroleum Corporation with regard to the repayment capacity that would have beeen ngerated once the project came on stream. From a national point of view of course the negotiation of a credit with a longer term maturity would have been desirable, but the centralisation of approvals and negotiation of credits had not become effective at that stage to enable national priorities to prevail. This has been mentioned to highlight a subsequent argument I wish to make and is in no way intended to reflect on a particular institution. The recent increases in the use of suppliers credits (in 1973 and 1974) to finance imports have been due to the extensive use of credits with maturities exceeding one year for imports of wheat flour and grain from Australia, France and the United States. These credits have maturities of one to three years and would cause a tremendous repayment burden in the period immediately ahead.

In so far as this category of financing is concerned, 1966 was the year we began to use them extensively, with 1973 and 1974 becoming critical years due to high cereal prices in world markets and the shortfall in rice production due to adverse weather conditions.

As mentioned earlier, short-term trade credits were utilised in moderate volume to finance imports of rice from Burma and later wheat flour from Australia and France in the early and mid-sixties. The build-up in the use of short-term credits as a major source of financing commenced only in 1970 when it was decided that industrialists should seek financing of six to twelve months duration for raw materials to avoid a drastic cutback in imports that would otherwise have been necessary. As can be seen from the table on import financing, the use of trade credits have increased since then and reached a level of Rs. 386 million, accounting for 18.2 per cent of

TABLE 4

FINANCING OF IMPORTS*

(Rs. Million)

	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974
I. Imports	1960	1922	2018	1985	2356	2655	2332	2218	2153	2644	4603
II. Sources of foreign financing											
(*a*) Official aid											
Loans	78	77	173	212	295	362	299	498	415	335	462
Grants	76	65	51	46	23	46	75	105	100	94	282
(*b*) Suppliers credits	—	—	—	38	86	176	85	58	52	240	429
(*c*) Short-term trade credits ..	n.a.	n.a.	n.a.	n.a.	84	185	434	658	593	769	836
(*d*) Bank borrowings (net increase)..	—	—	—	57	—	227	123	—	12	—	16
(*e*) IMF drawings*	—	109	144	123	213	77	135	146	225	137	377
TOTAL	154	251	368	476	701	1073	1151	1465	1397	1575	2402
III. Foreign financing as a percentage of imports	8.0	13.1	18.2	24.0	29.8	40.4	49.4	66.1	64.9	59.6	52.2

* Including SDR allocations and oil facility drawings

total imports in 1974. The major items for which this type of financing is presently used are crude oil, rice, wheat flour and grain, sugar and industrial raw materials. To the extent that Sri Lanka is able to roll over this short-term debt from year to year and the country has an assurance of its continuity at an equivalent level, there is no immediate danger in utilising trade credits. However, each time these credits are rolled over, the cost would be in the region of 15 - 20 per cent, which is much higher than the rate of interest nominally charged on such credits. In other words, quite apart from any cutback in imports resulting from higher import prices, a given volume of short-term trade credits would result in a diminished volume of imports of the order of 10 per cent each year, as a result of higher costs which are not explicit in the rate of interest.

The next important item in import financing has been the lines of credit and letter of credit facilities made available to the Central Bank by commercial banks abroad, mainly in the United States and the United Kingdom. Many of you would recall the introduction of the dual exchange rate system in 1968. At the time it was introduced, it had been the expectation that the second rate would be allowed to fluctuate according to market forces, so that higher demand for imports resulting from the removal of import restrictions could be curbed by the higher price charged for foreign exchange in the second market. As events turned out, the management of the rate by the Central Bank was not permitted to be as flexible as originally envisaged and therefore the Central Bank had to draw on the facilities made available by banks abroad to finance the large volume of imports in 1969. The utilisation of these credit lines continued into 1970 as seen from Table 4. As in the case of trade credits, there is no immediate danger in using these facilities extensively, provided there is no risk of their withdrawal from year to year in which event the cutback in imports that would be necessary to release resources to make payments for imports in the previous year financed on this basis, would be quite substantial. It would be relevant to mention that a part of the credits extended to the Central Bank by British banks was rescheduled in 1971 and made repayable over a five-year period.

The reliance on the International Monetary Fund as a major source of financing for imports began in 1965, with the negotiation of the first Standby Agreement with the Fund. Subsequent agreements have been entered into with the Fund to finance stabilisation programmes of the Government, including one that was approved at the time the dual exchange rate system was introduced. In addition to drawings made under successive Standby Agreements, financing was also made available during the ten-year period under the Compensatory Finance Scheme for export fluctuations, the allocation of Special Drawing Rights over the three year period 1970-72 and more recently the drawings made available by the IMF under their Oil Facility.

Terms of Borrowings and the Debt Burden

I would now like to turn to Table 5 on gross external liabilities outstanding. Of the official loans outstanding at the end of 1974, approximately 67 per cent were to countries of the Aid Group, 16 per cent to international organisations and 17 per cent to countries of the socialist bloc. In order to appreciate the magnitude of the debt burden that would arise from a given volume of official aid outstanding, it is necessary to look at the terms of aid on which this assistance has been obtained. Table 6 gives the average terms of aid commitments by countries of the Aid Group. These averages have been computed for five-year periods on the basis of commitments made at the annual Aid Group meetings. It is interesting to note that the proportion of grants and grant-like contributions has more than doubled between the two periods. The average repayment period has increased from nearly 20 years to 30 years between the two periods, with the average grace period more than doubling from 3.3 years to 7.4 years. Further, the average rate of interest has declined from 2.9 per cent to 2.6 per cent. This is clear evidence of a softening in the terms of assistance provided by Aid Group countries and is both a response to Sri Lanka's increasing debt burden and a movement towards fulfiling the Recommendation on the Terms and Conditions of Aid adopted by the Development Assistance Committee of the OECD to which the Aid Group countries belong, with the exception of India.

It is relevant to mention that the World Bank and the Asian Development Bank have also accepted the need to soften the terms of lending to Sri Lanka. The World Bank now provides only IDA loans which are interest-free and repayable in 50 years, including

TABLE 5

GROSS EXTERNAL LIABILITIES OUTSTANDING*

(Rs. Million)

	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974
Official loans (including sterling loans) ..	412	489	549	739	1074	1376	1596	1919	2337	2687	2926
Supplier's credits	—	—	—	17	66	192	197	190	158	303	518
Short-term trade credits	37	60	31	108	95	130	273	317	340	477	525
IMF	108	181	271	376	636	626	490	448	466	464	628
Central Bank borrowings	—	—	—	57	29	256	412	334	352	245	262
TOTAL ..	557	730	851	1297	1900	2580	2968	3208	3653	4176	4859

* Official loans for period 1964—69 represent amounts outstanding at the end of September

TABLE 6

TERMS OF AID COMMITMENTS

	Average 1965-69	*Average* 1970-74
A. AID GROUP COUNTRIES		
I. **Grants and grant-like contribution**		
Percentage of total	12.3	26.0
II. **Loans**		
(a) Average* interest rate	2.9	2.6
(b) Average* grace period	3.3	7.4
(c) Average* repayment period (excluding grace period)	16.6	22.6
(d) Average* grant element of loans ..	45.59	57.42
III. Average* grant element of total programme	52.42	67.26
B. Grant element of IDA loans	90.42	
C. Grant element of ADB loans from Special Funds	78.92	
D. Grant element of loan with best terms from China	83.31	
E. Grant element of loan with best terms from other socialist countries	42.41	

* Weighted averages

a grace period of 10. The recent Asian Development Bank loan of $30 million, extended to part finance the fertiliser manufacturing plant is from the Bank's Special Fund resources and bears an interest rate of 1 per cent, with repayment spread over a period of 40 years, including a grace period of 10.

A statement on the terms of assistance would not be complete without mentioning the socialist countries as their lending ccounts for 15 per cent of the total debt outstanding. Much of the assistance offered by the People's Republic of China has been in the form of grants, while the loans have been interest-free, with the repayment period in the more recent loans being extended up to 30 years, including a grace period of 10. In the case of other socialist countries, the repayment terms have ranged from 8-15 years with interest payable at rates ranging from 2-3 per cent and grace periods generally extending only over the period of construction of projects. For purposes of comparison, the grant element of the best terms offered on loans by the People's Republic of China and the other socialist countries have been computed, along with the average grant element of loans from Aid Group countries. In overall terms, it would therefore be a fair comment to state that the terms of official assistance is favourable and there is continuing relaxation in these terms. Thus, if along with this movement Sri Lanka is able to mobilise an increasing volume of assistance whilst reducing her reliance on non-official sources, she would be in a position to mobilise the required level of external assistance to meet the country's development needs, without increasing the country's debt burden substantially.

This favourable movement in the terms of assistance has covered only Rs. 744 million out of Rs. 2,343 million of foreign financing obtained for the year and therefore the bulk of the funds borrowed have been obtained from sources extending credit on harder terms. When one looks at the gross external liabilities outstanding, 60 per cent are in respect of official loans where the terms of assistance have improved over the last ten years. In the case of the balance 40 per cent, the terms are such that the bulk of it would fall due for payment over the next five years. In the case of suppliers credits, the maturities are mainly in the 1 - 5 year range and they represent 11 per cent of the total debt outstanding. Short-term trade credits and Central Bank borrowings account for nearly 18 per cent of the total and these have to be rolled over from year to year to ensure that import capacity would not suffer due to a withdrawal of these facilities, in the absence of any large increase in official aid on concessional terms to fill the gap. Short-term trade credits and the net increase in bank borrowings accounted for 36 per cent of total foreign financing for imports in 1974, which in total accounted for 52.2 per cent of imports.

The increasing debt burden over the last ten years is illustrated in Table 7 where it is seen that the debt service ratio increased from 3.5 per cent to over 20 per cent in 1973 and reducing to 17.9 per cent due to the higher level of export earnings in rupee terms realised last year. The repayment of short-term trade credits which are tolled over has been left out of this computation. However, the repayment of suppliers credits and IMF repurchases accounted for 68 per cent of total amortization payments, clearly illustrating the greater debt service burden caused by shorter term borrowings. Increasing the levels of official assistance on favourable terms would not add substantially to the debt burden over the next 5 - 10 years due to the built-in grace period, but a continuation of borrowings of shorter

TABLE 7

DEBT SERVICE PAYMENTS

(Rs. Million)

	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974
I. Debt Service Payments										
(a) Amortization ..	52	84	84	174	214	354	387	379	512	549
(b) Interest ..	22	25	33	42	68	100	104	102	108	134
Total	74	109	117	216	282	454	491	481	620	683
II. Earnings on exports of goods and services ..	2108	1878	1860	2223	2163	2253	2243	2206	2735	3821
III. Debt Service Ratio ..	3.5	5.8	6.2	9.7	13.0	20.2	21.9	21.8	22.7	17.9
IV. Breakdown of I (a)										
IMF Repayments ..	36	54	18	48	87	161	145	170	169	162
Official Loans ..	16	30	45	61	77	113	96	125	146	173
Suppliers Credits ..	—	—	21	35	50	80	65	84	95	214
Bank Borrowings from Abroad (net) ..	—	—	—	29	—	—	81	—	112	—
Total	52	84	84	174	214	354	387	179	512	549

maturities compounded with the high reliance on short-term trade credits and bank borrowings, which have been increasing at the rate illustrated in these tables, would undoubtedly create a critical debt service situation over the next few years. In other words, due to the accumulation of short-term debts, a continuation of extensive borrowings at this end of the maturity scale will place the country's creditworthiness in the future seriously in doubt.

Remedial Measures

Faced with this situation and the need to achieve higher import levels, the following measures should be taken by Sri Lanka. The first is to mobilise higher levels of official development assistance within the framework of the existing Aid Group. As pointed out earlier, the assistance being obtained is already at high levels in per capita terms and it is therefore difficult to see a substantial increase in aid disbursements from the Aid Group, unless there is a major effort on the part of the Government of Sri Lanka to mobilise project assistance on a large scale. Many donors are looking eagerly for projects to finance, particularly in the agricultural sector. Very often programme requirements could be set up under the umbrella of a project for purposes of foreign financing and this is one area where a major effort could be made to secure financing for high priority projects/programmes.

A second step is the intensification of the machinery set up in the Ministry of Planning and Economic Affairs to monitor and authorise the volume of suppliers credits and short-term trade credits. The need to have a centralised authority for negotiating and approving such credits is clearly of high priority for countries facing critical debt service situations. Very often national interest is never taken account of in negotiating suppliers credits by importing institutions as these are of secondary interest to them and nor does the exporter bother as he is concerned entirely with the export of his products.

A third step in the list of remedial measures would be to seek even better terms of official assistance than in the past. Countries of the Development Assistance Committee of OECD could be prevailed upon to implement the Terms Recommendations as soon as possible. In the case of the socialist countries, with the exception of China, the possibilities of improving the terms of assistance are more limited, as their criteria for giving assistance are different and they are essentially export credits in the final analysis.

A fourth possibility is of course renegotiating the country's debt. The value of this would depend on several factors. The first and most crucial is the speed at which an aid renegotiation exercise could be conducted. Past experience, which I have mentioned earlier, does not give us great hope that debt renegotiations, short of defaulting (with the adverse consequences which would follow) would provide immediate relief. With the existence of an Aid Group for Sri Lanka, an international framework already exists for a co-ordinated operation, though in terms of the expert group recommendations, such a meeting would have to be chaired by a developing country. In the case of the Sri Lanka Aid Group, the only developing country would be India and there may be some political implications in having her chair a Sri Lanka meeting for debt renegotiation, unless other developing countries are co-opted to the Aid Group for the debt rescheduling exercise and provision exists for this in the recommendations of the expert group.

The second critical factor is whether the amounts rescheduled would increase the volume of assistance made available by donor countries or whether the rescheduled amounts would be within the existing amounts allocated by each country. There is no evidence at the international level that rescheduling actually increased the volume of resource transfers. However, even within a given volume of aid, debt rescheduling would be preferable to new aid, since it effectively makes available untied foreign exchange resources, unlike in the case of new aid, which is tied to items and sources, provided of course that the negotiation of a debt rescheduling agreement does not take longer than the negotiation of new aid. As mentioned earlier, representatives of the socialist countries declined to participate in debt rescheduling meetings, as they felt that they could not be bound by terms of such negotiations as their aid is extended essentially on a bilateral basis, depending very much on the relationship that exists between the two countries. Further, the international agencies, such as the World Bank and the Asian Development Bank, have so far not had their debts rescheduled in any of the past exercises of this type. If these two groups of countries and institutions are excluded, that leaves us effectively with the Aid Group countries to discuss the renegotiation of official loans and suppliers credits.

If one examines the repayments in 1974, 69 per cent of the repayments on official loans and 95 per cent of the repayments on suppliers credits were to Aid Group countries. This means that if a successful rescheduling operation could have been carried out in 1974, Rs. 119 million of repayments on official loans and Rs. 203 million of repayments on suppliers credits could have been deferred. It is assumed that all export credits are covered by some form of export credit guarantee or credit insurance scheme operated by the government of donor countries, so that there would be a willingness on the part of the government to include suppliers credits within the framework of a rescheduling operation. Assuming that other aid flows would not be effected as a result of a debt rescheduling operation, which is a very tenuous assumption to make Sri Lanka's import capacity last year would have increased by 7 per cent. On the other hand, it is likely that higher rates of interest would have been paid on the debts deferred thereby reducing the increase in import capacity by an equivalent amount.

A rescheduling exercise would normally not include short-term borrowings from bank and short-term trade credits. A major exercise which would be of considerable interest in Sri Lanka would be the conversion of the large short-term debt, outstanding both to banks and exporters abroad, amounting to Rs. 787 million and equivalent to 17 per cent of 1974 imports, into a medium term loan provided by a consortium banks/governments and arranged under the sponsorship of the World Bank and/or the International Monetary Fund. This would immediately release Sri Lanka from the heavy over-hand of short-term debt which inhibits long-term policy-making to get over the country's critical foreign exchange situation. This must also be accompanied by a major effort at mobilising enhanced levels of official assistance on favourable terms from the Aid Group and other countries, followed by a very tight control of approvals of private credits to avoid a recurrence of a debt problem.

In view of the foregoing arguments, I feel that Sri Lanka's interest at UNCTAD IV on this subject would be in the creation of an international machinery to arrange debt rescheduling the consolidation of long-term as well as short-term debts. Whilst it would involve certain conditions regarding financial and economic management on the part of debtor countries, an automatic mechanism should be set up which would expedite the process of obtaining relief by an exercise of this nature once the debt service ratio reaches a critical level. Such machinery is non-existent at present, though the first steps in this direction have been taken under the umbrella of UNCTAD. Sri Lanka's particular interest should be in arrangements made for the conversion of short-term debt to medium-term debt, as this is clearly the problem area.

APPENDIX I

DRAFT DECLARATION OF THE MINISTERIAL MEETING OF THE GROUP OF 77 AT MANILA

MINISTERIAL MEETING OF THE GROUP OF 77

Manila, Philippines.
26 January to 6 February 1976

Meeting of Ministers,

Report of the Chairman of the Co-ordinating Committee

The Committee held two meetings on 5 February 1976 under the chairmanship of Ambassador G. Martinez, Argentina. It was composed of the following countries, which were elected members on the proposal of the different regional groups:—

Asian Group — Afghanistan
India
Indonesia
Iran
Iraq
Kuwait
Pakistan
Philippines
Sri Lanka
United Arab Emirates

African Group Congo
Egypt
Ethiopia
Gabon
Ghana
Kenya

	Mauritania
	Morocco
	Nigeria
	Senegal
Latin American Group	Brazil
	Chile
	Colombia
	Cuba
	Mexico
	Nicaragua
	Peru
	Trinidad and Tobago
	Uruguay
	Venezuela

The Committee was entrusted with the task of preparing the attached draft Declaration for submission to the plenary of the Meeting of Ministers. It took as the basis for its work a preliminary draft prepared at the level of the Senior Officials (77/MM(III)/13), making various changes and also including some additional paragraphs to serve as a global framework for the Declaration. The Declaration is to serve as a general introduction to the specific proposals contained in the Programme of Action which incorporates the results of the work of Committees I to IV.

Draft Declaration

Guided by our common aspirations, we, the representatives of the developing countries having met at the Third Ministerial Meeting of the Group of 77, held in the city of Manila, Philippines, to coordinate and harmonize our positions in preparation for the fourth session of the United Nations Conference on Trade and Development, to be held at Nairobi in May 1976,

Having considered the Declaration of the Fourth Conference of Trade Ministers of OAU Member Countries, the First Declaration and Action Guidelines of the Latin American Council of the Latin American Economic System (SELA) and the Djakarta Declaration 1976,

Inspired by the illuminating opening address delivered by His Excellency the President of the Republic of the Philippines, Dr.

Ferdinand Marcos, who expressed fruitful ideas which made a significant contribution to our discussions and reflect a keen analysis of the present state of international economic relations and an outstanding perceptiveness of the unfavourable economic and social conditions under which our peoples are struggling,

Cordially thank the Government and the people of the Philippines for their warm hospitality and for the efficient organization of this Meeting, which has enabled us to conclude the Ministerial Meeting successfully.

The Ministers of the Group of 77 at their Third Meeting held at Manila from 2 to 6 February 1976,

Having examined in depth the economic situation of the developing countries and having reviewed the policies pursued and the results obtained since the adoption of the International Development Strategy and the third session of UNCTAD in the field of trade, international economic relations and development in the light of the Declaration and Programme of Action on the Establishment of a New International Economic Order and the Charter of Economic Rights and Duties of States,

Inspired by the Charter of Algiers and the Lima Declaration of the Group of 77,

Noting with deep disappointment that very few concrete results have been obtained in those fields, that the developed countries have generally not implemented the policy measures and fulfilled the commitments undertaken designed to improve the situation of the developing countries, and that the relative position of the developing countries in the world economy—especially the position of the least developed, land-locked and island developing countries, and the most seriously affected developing countries has worsened during this period,

Declare that international economic conditions—particularly world inflation, monetary disorders, recession in the highly industrialized regions, the appearance of new forms of economic discrimination and coercion, certain forms of action by transnational corporations and the revival of protectionist trends in the developed countries—have seriously affected the economies of all developing countries,

Recognize that, in view of this situation, some developing countries have made and continue to make major efforts to provide other developing countries with financial and other assistance to help them overcome their balance-of-payments difficulties, including their food and energy problems, and hope that such initiatives will encourage further assistance in these fields,

Deplore the application by the developed countries of unjust and discriminatory trade regulations, and the obstacles which they impose on developing countries in regard to access to modern technology.

Affirm their conviction that it is necessary and urgent to bring about radical changes in economic relations in order to establish new relations based on justice and equity which will eliminate the inequitable economic structures imposed on the developing countries, principally through the exploitation and marketing of their natural resources and wealth,

Emphasize the close solidarity of all the developing countries which has made possible for them to evolve a unified position, as well as the importance of harmonizing positions which help to enhance the irreversible process they have created in international economic relations and to consolidate and strengthen their unity and solidarity through joint concerted action thus laying the foundation for the New International Economic Order and for the adoption of the Charter of Economic Rights and Duties of States,

Affirm that the current situation presents a favourable opportunity for the international community to take steps and reach agreements at the fourth session of the United Nations Conference on Trade and Development aimed at solving the economic and financial problems of the developing countries and achieving the objectives of the New International Economic Order,

Decide to promote the urgent implementation, on the basis of a programme of concerted action, of the New International Economic Order within the framework of the Declaration and Programme of Action on the Establishment of a New International Economic Order, the Charter of Economic Rights and Duties of States and the decisions and recommendations adopted by the General Assembly at its seventh special session,

Reaffirm their conviction that the implementation of the New International Economic Order is essential for the promotion of justice and the maintenance of peace and international co-existence, owing to the ever-increasing interdependence of nations and peoples,

Reaffirm further their conviction that responsibility for achieving economic development and ensuring social justice lies in the first instance with countries themselves and that the achievement of national, regional and international objectives depends on the efforts of each individual country. As a necessary corollary to those national efforts and in accordance with the principle of collective self-reliance they urge the need for closer and more effective co-operation among the developing countries, including the harmonization and co-ordination of their respective economic policies.

Declare once again that international economic relations should be based on full respect for the principles of equality among States, and non-intervention in internal affairs, on respect for different economic and social systems and on the right of each State to exercise full and permanent sovereignty over its natural resources and all its economic activities,

Resolve that the developing countries should be assured wider and increasing participation in the process of adoption and in the adoption of decisions in all areas concerning the future of international economic relations and in the benefits derived from the development of the world economy,

Reiterate the need and urgency for the principle of differential and preferential treatment in favour of developing countries to be applied in accordance with specific and effective formulae in all fields of their economic relations with developed countries,

Accordingly,

DECLARE

their firm conviction to make full use of the bargaining power of the developing countries, through joint and united action in the formulation of unified and clearly defined positions, with a view to achieving, *inter alia*, the following objectives in the various fields of international economic co-operation:—

1. Restructuring international trade in commodities so that it offers a viable solution to the problems concerning commodities, to raise and maintain the value of the exports and the export earnings of the developing countries, increasing the processing and improving the terms of trade of those countries. Bearing these fundamental objectives in mind, the fourth session of UNCTAD should take concrete and operational decisions concerning the integrated programme and all its elements and the implementation of each of its objectives and each necessary international measures, including the negotiating plan;

2. Reshaping of the structure of world industrial production and trade to ensure a substantial increase in the share of the developing countries in world exports of manufactures and the semi-manufactures in accordance with the goals set forth *inter alia*, in the Lima Declaration and Programme of Action on Industrial Development Co-operation. To this end, suitable internal and external conditions including new forms and areas of industrial co-operation must be created for accelerated industrial development and for promoting the export of manufactures and semi-manufactures from developing countries, without giving rise to restrictions on their access to the markets of developed countries;

3. Expanding the total export capacity of the developing countries, in terms both of volume and of the diversification of their products, and thus promoting the increasing participation of these countries in world trade;

4. Achieving substantive results for the developing countries in the multilateral trade negotiations and additional benefits through the adoption of differential measures and special procedures for them in all areas of the negotiations. Pending the completion of those negotiations, ensuring that the developed countries strictly observe the standstill with regard to their imports from the developing countries. In this context, substantial improvements should be made in the existing GSP schemes to help developing countries to achieve the agreed objectives of the GSP;

5. Condemning and rejecting all forms of discrimination, threats or coercive economic policies and practices, either direct or indirect, against individual or groups of developing countries by developed countries, which are contrary to fundamental principles of international economic relations.

6. Urgently achieving a reform of the international monetary system which will meet the interests and needs of the developing countries, with the full and effective participation of these countries in the decision-making process involved in that reform;

7. Securing short-term and long-term financing in insufficient volume and on favourable terms and accelerating the flow of bilateral and multilateral financial assistance from the developed to all the developing countries and in particular to the least developed land-locked and island developing countries and the most seriously affected countries on a more continuous, assured and stable basis, in order that the target for official development assistance is reached without delay: on the other hand, access of developing countries to the capital markets of developed countries should be substantially increased.

8. Taking immediate steps by developed countries and international organizations to alleviate the increasing debt problems of developing countries and to expand and improve short-term financing facilities to mitigate their balance-of-payments difficulties;

9. Promoting national technological progress through the acquisition, development, adaptation and dissemination of technology in accordance with the needs, interests and priorities of the developing countries, and ensuring the transfer of technology on international conditions consistent with those objectives with a view to strengthening the technological capabilities of developing countries and thus reducing their dependency in this field, through appropriate institutional arrangements, the adoption of a multilaterally binding code of conduct on the transfer of technology and the review and revision of international conventions on patents and trademarks.

10. Ensuring that the activities of transnational corporations operating in territories of developing countries are compatible with their objectives of national development, through the free exercise

of the right to regulate the operations of those corporations, and promoting international co-operation as an effective instrument for achieving that objective;

11. Promoting and fostering a programme of economic co-operation among developing countries through suitable permanent machinery for strengthening their mutual co-operation and making possible the adoption of concrete measures in the various fields of their economic relations, in order to promote the individual and collective self-reliance, interdependence and progress of the developing countries.

12. Devoting efforts towards urgent action for the expansion of trade between the developing countries and developed countries with centrally planned economies, including suitable institutional arrangements for dealing with this issue, with a view to increasing the economic benefits accruing to developing countries from such trade and economic co-operation.

13. Establishing more effective and realistic measures and policies through suitable mechanisms in favour of the least developed, land-locked and island developing countries and implementing them as speedily as possible so that their results may help to alleviate or diminish the specific and long-existing problems affecting those countries.

14. Implementing without delay effective measures in favour of the most seriously affected developing countries to enable them to overcome their special problems, in accordance with General Assembly resolutions 3201 (S-VI) and 3202 (S-VI).

15. Furthering co-operation in the solution of major and urgent international economic problems affecting a large number of developing countries.

16. Continuing and intensifying their efforts to affect the changes urgently needed in the structure of world food production and taking appropriate steps, particularly in the field of trade, to ensure an increase in agricultural production, especially of foodstuffs, and in the real income which the developing countries obtain from exports of these products. Developed countries and developing countries in a position to do so should provide food grains and financial assistance on most favourable terms to the most seriously affected countries,

to enable them to meet their food and agricultural development requirements.

17. Strengthening the negotiation function of UNCTAD so that it could evolve into an effective negotiating arm of the United Nations in the fields of trade and development capable of translating principles and policy guidelines, particularly those enunciated by the General Assembly, into concrete agreements and thus directly contribute to the establishment of the New International Economic Order.

APPENDIX II

SELECTED STATISTICS

TABLE 1

Distribution of World Product 1972

(GNP per capita rounded to nearest US. $ 10)

	Population (millions)	*Per-centage*	GNP (*US.*$000 *millions*)	*Per-centage*	*GNP per capita (US.*$)
The World ..	3,748	100.00	3,652	100.00	—
Developing Countries	1,845	49.23	509	13.94	280
Petroleum exporters	275	7.34	73	2.00	270
Higher income ..	356	9.50	263	7.20	740
Middle income ..	272	7.26	72	1.97	260
Lower income ..	942	25.13	101	2.77	110
Industrial countries	662	17.66	2,427	66.46	3,670
Centrally planned economies ..	1,187	31.67	686	18.78	580

Petroleum exporters: Algeria, Ecuador, Gabon, Indonesia, Iran, Iraq, Kuwait, Libyan Arab Rep., Nigeria, Saudi Arabia, Venezuela.

Higher-income countries: Argentina, Barbados, Brazil, Chile, China (Rep. of), Colombia, Costa Rica, Cyprus, Dominican Rep., Fiji, Greece, Guatemala, Guyana, Israel, Jamaica, Lebanon, Malaysia, Malta, Mexico, Nicaragua, Panama, Peru, Singapore, Spain, Trinidad and Tobago, Tunisia, Uruguay, Yugoslavia, Zambia. (Over $375 GNP per capita.)

Middle-income countries: Bolivia, Botswana, Cameroon, Congo (People's Rep. of) Egypt (Arab Rep. of), El Salvador, Ghana, Honduras, Ivory Coast, Jordan, Korea (Rep. of), Liberia, Mauritius, Morocco, Papua New Guinea, Paraguay, Philippines, Senegal, Swaziland, Syrian Arab Rep., Thailand, Turkey, Viet-Nam (Rep. of). ($200 to $375 GNP per capita.)

Lower-income countries: Afghanistan, Bangladesh, Burma, Burundi, Khmer Rep., Central African Rep., Chad, Dahomey, Ethiopia, Gambia (The), Guinea, Haiti, India, Kenya, Laos, Lesotho, Malagasy Rep., Malawi, Mali, Mauritania, Nepal, Niger, Pakistan, Rwanda, Sierra Leone, Somalia, Sri Lanka, Sudan, Tanzania, Togo, Uganda, Upper Volta, Yemen (People's Dem. Rep., of), Yemen Arab Rep., Zaire. (Under $200 per capita.)

Industrial countries: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany (Fed. Rep. of), Iceland, Ireland, Italy, Japan, Luxembourg, Netherlands, New Zealand, Norway, Portugal, Puerto Rico, South Africa, Sweden, Switzerland, United Kingdom, United States.

Centrally planned economies: Albania, Bulgaria, China (People's Rep. of), Cuba, Czechoslovakia, German Dem. Rep., Hungary, Korea (Dem. Rep. of), Mongolia, Poland, Romania, USSR, Viet-Nam (Dem. Rep. of).

Source: WORLD BANK ATLAS 1974.

TABLE 2

Economic Growth Experience of Developing Countries 1960—1973

	Population in 1973	*GNP per capita*	*GNP (c)*		*GNP per capita(c)*	
		1973(*b*)	1960–70	1970–73	1960–70	1970–73
	(*Million*)	($)	(*Per cent change per annum*)			
Major petroleum exporters(*a*) ..	276	310	5.9	7.8	3.1	4.9
Other developing countries: ..	1,565	235	5.1	5.3	2.5	2.7
Fast-growing exports of manufactures (*a*)	103	715	7.9	7.3	5.0	4.4
Others:						
GNP per capita over $250(*d*) ..	307	530	4.9	6.5	2.2	3.8
GNP per capita below $250(*d*)	1,155	115	4.2	3.0	1.7	0.5
of which:						
3 large countries(*e*) ..	748	100	3.9	2.0	1.6	-0.3
Least developed(*a*) ..	157	95	3.4	2.9	0.8	0.3
TOTAL(*f*)	1,841	245	5.2	5.7	2.6	3.1

Source: UNCTAD document TD/B/530, 20 January 1975.

(*a*) For details of countries included, Table No. 1.
(*b*) At 1972 prices.
(*c*) In real terms.
(*d*) Estimated value in 1973 (based on 1972 prices and exchange rates).
(*e*) Bangladesh, India and Pakistan.
(*f*) Excluding developing countries in southern and eastern Europe, and the socialist countries of Asia.

TABLE 3

Foreign Trade Experience of Developing Countries, (1970—73 and Illustrative Projections for 1974)

	Purchasing power of exports	Terms of trade		Trade balance		
	1970–73	1970–73	1973–74(*b*)	1970	1973	1974(*b*)
	(*Per cent change per annum*)			(*$ billion*)		
Major petroleum exporters(*a*) ..	18.2	10.4	160.6	6.7	17.4	107.0
Other developing countries: ..	7.0	1.7	–2.1	–8.9	–11.8	–20.0
Fast-growing exports of manufactures(*a*)	16.7	–2.4	–13.4	–4.7	–7.1	–13.9
Others:						
GNP per capita over $250(*c*) ..	5.8	3.5	1.2	–2.0	–2.2	–2.1
GNP per capita below $250(*c*)	1.8	0.8	0.1	–2.2	–2.4	–4.0
of which:						
3 large countries(*d*) ..	–2.6	–2.8	–17.9	–0.5	–0.2	–1.7
Least developed(*a*) ..	2.4	5.4	7.0	–0.4	–0.7	–0.8
TOTAL(*e*)	10.7	4.6	53.3	–2.2	5.6	87.0

Source: UNCTAD document TD/B/530, 20 January 1975.

(*a*) For details of countries included, Table No. 1.

(*b*) For illustrative 1974 projections, the volume of trade has been assumed to be unchanged from 1973 levels. Prices of primary commodities and of petroleum are estimated, while for manufactures 1974 average prices are assumed to be 20 per cent higher than in 1973.

(*c*) Estimated value in 1973 (based on 1972 prices and exchange rates).

(*d*) Bangladesh, India and Pakistan.

(*e*) Excluding developing countries in southern and eastern Europe, and the socialist countries of Asia.

TABLE 4

Pattern of World Trade 1938—1972

(Value in billion U.S. Dollars)

	1938		1948		1958		1968		1970		1971		1972	
	IMP	*EXP*	*IMP*	*EXP*	*IMP*	*EXP*	*IMP*	*EXP*	*IMP*	*EXP*	*IMP*	*EXP*	*IMP*	*EXP*
Developed Market Economies	17.9	15.1	41.2	36.6	73.9	71.2	179.0	168.4	237.0	224.0	263.8	250.8	311.4	297.2
Centrally Planned Economies	1.7	2.4	3.7	3.7	12.6	12.1	27.4	27.0	34.2	32.9	37.0	35.9	45.2	42.6
Developing Market Economies	5.8	6.0	18.6	17.2	27.6	24.9	45.5	43.7	56.3	55.1	63.3	61.4	70.9	72.6

DEVELOPED MARKET ECONOMIES:

Africa: South Africa

North America: Canada, United States.

Asia: Japan, Israel.

Europe: European Economic Community — Belgium, France, Federal Republic of Germany, Italy, Luxembourg, Netherlands; European Free Trade Association — Austria, Denmark, FaeroeIslands, Finland, Norway, Portugal, Sweden, Switzerland, United Kingdom.

Other Europe — Andorra, Gibraltar, Greece, Iceland, Ireland, Malta, Spain, Yugoslavia;

Oceania: Australia, New Zealand.

CENTRALLY PLANNED ECONOMIES:

Asia: China, Mongolia, Democratic People's Republic of Korea; Democratic Republic of Viet-Nam.
Europe: Albania, Bulgaria, Czechoslovakia, German Democratic Republic, Hungary, Poland, Romania, USSR.

DEVELOPING MARKET ECONOMIES:

Africa: North Africa — Algeria, Egypt, Libyan Arab Republic, Morocco, Sudan, Tunisia; Other Africa — territories in Africa not listed elsewhere.

America: Latin American Free Trade Association (LAFTA) — Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Mexico. Paraguay, Peru, Uruguay, Venezuela; Central American Common Market (CACM) — Costa Rica, El Salvador Guatemala, Honduras, Nicaragua; Other Developing America: All countries in America (North, Central and South) not listed elsewhere,

Asia: Middle East (Western Asia) — Bahrain, Cyprus, Democratic Yemen, Iran, Iraq, Jordan, Kuwait, Lebanon, Oman, Neutral Zone, Qatar, Saudi Arabia, Syrian Arab Republic, Turkey, United Arab Emirates, Yemen; Other Asia (Southern and Eastern Asia) — all countries in Asia not listed elsewhere.

Oceania: All countries in Oceania not listed elsewhere.

Source: Statistical Year Book — 1973, U.N. New York.

TABLE 5

World Trade, 1970—1974

	EXPORTS						IMPORTS					
	Value $ billion	Annual percentage change					Value $ billion	Annual percentage change				
	1974*	1970–1974*	1970–1971	1971–1972	1972–1973	1973–1974*	1974*	1970–1974*	1970–1971	1971–1972	1972–1973	1973*1974
Developed market economy countries	546.8	24.5	12.0	18.5	36.8	33.2	615.1	26.5	11.3	18.2	37.5	42.6
Socialist countries	71.1	(21.0)	9 .0	18.7	34.7	(22.8)	80.7	(23.9)	8.3	22.6	36.6	(28.2)
Developing countries	209.6	40.0	9.6	15.3	47.5	107.3	149.0	28.5	12.9	10.9	35.1	58.9
Major petroleum exporters	120.9	90.0	25.1	14.7	56.5	214.0	34.2	34.5	16.4	22.0	37.4	65.2
Major fast-growing exporters of manufactures	22.2	36.5	15.1	26.7	54.1	36.2	34.8	30.0	13.6	15.5	49.8	48.7
All other developing countries of which:	66.5	23.0	-1.1	12.2	41.4	43.9	80.0	26.0	11.4	5.6	28.1	60.6
Large low-income countries	5.4	13.1	-5.8	11.1	24.5	25.6	7.2	17.3	2.8	-16.3	42.2	60.0
least developed countries	2.5	13.7	4.7	15.7	18.5	19.1	3.7	18.1	17.6	3.6	19.5	32.1

Source: UNCTAD document TD/B (XV) / Misc. 1, GE. 75-47543, 28 July 1975

(*) Preliminary estimates.

TABLE 6

Major Stockable Commodities: Trade Values, 1972 (a)

	EXPORTS F.O.B.				IMPORTS C.I.F.			
	World	*Developed market economy countries*	*Socialist countries*	*Developing countries*	*World*	*Developed market economy countries*	*Socialist countries*	*Developing countries*
Wheat (b)	4,366	3,818	388	160	4,609	1,540	1,291	1,778
Maize ..	2,298	1,914	53	331	2,444	1,905	324	215
Rice ..	1,120	537	143	440	1,232	175	82	974
Sugar ..	3,334	921	178	2,235	3,379	2,304	460	614
Coffee (raw) ..	3,049	—	—	3,049	3,368	3,101	126	141
Cocoa beans	723	—	—	723	729	572	131	26
Tea ..	745	79	57	609	784	470	72	242
Cotton ..	2,828	587	484	1,757	3,055	1,714	792	549
Jute and manufactures	762	71	21	670	840	520	120	200
Wool ..	1,346	1,143	42	161	1,722	1,361	257	105
Hard fibres ..	87	3	—	84 (c)	106	92	7	7
Rubber ..	904	—	—	904	1,095	689	305	101
Copper ..	4,113	1,364	354	2,395	4,226	3,635	377	214
Lead ..	418	257	45	116	470	379	60	31
Zinc ..	862	558	110	194	938	736	77	125
Tin ..	730	70	28	632	758	613	53	92
Bauxite ..	305	82	5	218	353	325	36	2
Alumina ..	609	265	46	298	685	532	91	62
Iron ore ..	2,608	1,213	403	992	3,484	3,039	425	21
Total ..	31,207	12,882	2,357	15,968	34,287	23,702	5,086	5,499

Source: UNCTAD document TD/B/C.1/166, 9 December 1974.

(a) The figures are preliminary. In sugar, cocoa and copper, import values appear understated in relation to exports. In metals and ores, EEC intra-trade is excluded.

(b) Including flour.

(c) In addition, $49 million exports of hard fibres manufactures.

Notes: Oilseeds and vegetable oils are under consideration. Special investigation is needed of a suitable stabilizing mechanism for oilseeds and vegetable oils produced in the tropical areas, which are interchangeable with other oils and fats in a varying number of uses and are therefore exposed to complex substitution effects. In bauxite and iron ore, further investigation is needed of the processing stage at which they could be stored most economically.

TABLE 7

Average Rates of Change in the Terms of Trade of Selected Primary Commodities (a)

Commodity	1952—1972	1955—1972
	(Per cent per annum)	
Agricultural products		
Bananas	—3.1	—3.4
Cocoa	—3.7	—2.9
Coconut oil	—1.4	—1.3
Coffee	—4.9	—3.5
Copra	—1.3	—1.3
Cotton	—3.1	—2.2
Groundnut oil	—2.7	—2.4
Jute	—0.4*	—0.4*
Maize	—2.8	—1.7
Oranges (incl. tangerines)	—0.9* (b)	—0.6 (b)
Palm oil	—2.0	—2.4
Rice	—0.8*	+0.4*
Rubber	—4.1	—5.6
Sisal	—2.2	—1.5
Sugar	+0.1*	0.0*
Tea	—2.5	—3.5
Tobacco	—1.1 (b)	—1.4 (b)
Wool	—3.6 (c)	—3.3
Minerals and metals		
Alumina	—1.8 (c)	—2.2
Aluminium	—1.5 (c)	—2.2
Bauxite	+1.2 (c)	+0.9
Copper	+2.6 (c)	+3.1
Iron ore	—2.3 (c)	—2.2
Lead	—2.2 (c)	—2.0
Manganese ore	—4.7 (c)	—5.3
Phosphate rock	—1.1 (c)	—1.3
Tin	+2.7 (c)	+2.8
Zinc	+1.2 (c)	+1.2
Combined index		
28 commodities listed	—2.2 (c)	—1.9

Source: UNCTAD Document TD/B/563. 7th July 1975.

(*a*) Terms of trade of the listed commodities have been calculated by deflating unit values of exports from developing countries (or from the world) by the United Nations index of unit values of exports of manufactured goods. Average annual rates of change in the terms of trade are calculated from the trend rates. All trends were statistically significant (at least the 95 per cent level) except for those marked with an asterisk (*). The figures in this table relate to export unit values and are therefore not comparable to the series shown in Table of TD/B/558, which relate to market prices. Furthermore, the latter table covers the two commodity price boom periods, 1950–51 and 1973–74.

(*b*) Based on unit values of world exports.

(*c*) 1953-1972.

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TABLE 8

Recent Declines in Commodity Prices

Commodity	Highest price in period 1974—1975		Prices in August 1975	Decline from peak	Instability index(a)
	Level	Month reached			
	(cents per lb)		(cents per lb)	(per cent)	(per cent)
Sugar ..	56.6	November 1974	18.7	–66.9	109.1
Coffee ..	88.5	August 1975	88.5	—	22.9
Cocoa ..	117.2	May 1974	78.3	–33.2	45.9
Tea ..	71.1	March 1974	60.9	–14.3	14.7
Cotton ..	103.8	January 1974	59.6	–42.5	28.3
Jute	20.8	October 1974	15.0	–27.8	21.0
Sisal	48.5	June 1974	20.0	–58.7	62.4
Rubber ..	49.2	January 1974	27.2	–44.7	32.2
Copper ..	137.5	April 1974	58.0	–57.8	41.9
Tin	415.3	September 1974	306.0	–26.3	42.2

Source: UNCTAD Document TD/B/C. 1/195. 16th October 1975.

(*a*) Coefficient of variation of prices over period 1950–1974.

TABLE 9

Changes in the "Real" Prices of the Commodity Exports of Developing Countries 1950—1974*

(Indexes 1973 = 100)

Year	35 commodities (including petroleum)	34 commodities (excluding petroleum)	Agri-culture	FOOD			Non food	Mineral & metal
				Total	Beverages	Other food		
1950	127	125	137	134	164	111	145	94
1951	117	124	134	122	151	101	161	98
1952	111	115	116	114	142	93	122	110
1953	115	113	116	122	153	99	102	103
1954	126	127	136	148	217	97	109	101
1955	123	121	123	125	170	91	120	115
1956	121	119	120	126	173	91	108	117
1957	111	110	114	119	156	92	100	101
1958	107	103	106	111	144	86	94	95
1959	99	102	105	105	128	88	105	93
1960	96	99	102	100	119	85	107	92
1961	90	91	92	93	106	82	91	90
1962	88	90	92	92	103	83	92	87
1963	88	93	97	100	102	99	88	85
1964	90	101	99	104	120	92	89	104
1965	89	101	93	97	112	86	86	120
1966	89	101	91	94	107	84	84	127
1967	85	93	89	94	103	87	80	104
1968	85	95	91	95	102	89	82	107
1969	85	97	92	95	102	89	84	112
1970	82	95	90	97	111	87	74	109
1971	83	83	82	87	92	84	71	87
1972	81	81	82	87	92	84	70	80
1973	100	100	100	100	100	100	100	100
1974	198	116	116	128	97	152	87	116

Source: UNCTAD Document TD/B/563 7th July 1975.

* The price series in each index have been weighted by the value of exports of each commodity concerned from developing countries in 1967–69 and each index has been "deflated" by the World Bank's index of prices of manufactured goods in world trade.

TABLE 10

Performance of DAC Member Countries Under the Official Development Assistance Target
(Percentage of GNP)

Country *	1961—1962 *average* †	1969	1970	1971	1972	1973	1974	1969–1974 *average*
France	1.31	0.65	0.64	0.65	0.66	0.58	0.59	0.62
Netherlands ..	0.47	0.49	0.61	0.58	0.67	0.52	0.62	0.59
Australia	0.43	0.56	0.59	0.53	0.59	0.44	0.55	0.53
Sweden	0.09	0.43	0.37	0.43	0.48	0.56	0.72	0.52
Belgium	0.64	0.49	0.46	0.50	0.55	0.51	0.49	0.50
Denmark	0.11	0.38	0.37	0.42	0.45	0.47	0.54	0.46
Canada	0.12	0.33	0.42	0.42	0.47	0.43	0.50	0.44
Norway	0.14	0.30	0.32	0.33	0.42	0.46	0.57	0.43
United Kingdom ..	0.56	0.37	0.34	0.40	0.38	0.34	0.37	0.37
Germany, F.R. ..	0.45	0.33	0.30	0.33	0.30	0.28	0.34	0.31
United States ..	0.56	0.32	0.30	0.31	0.28	0.23	0.25	0.28
New Zealand ..	—	0.22	0.22	0.23	0.25	0.24	0.30	0.25
Japan	0.17	0.26	0.23	0.23	0.21	0.24	0.24	0.23
Finland	—	—	—	—	—	—	0.18	0.18
Switzerland	0.06	0.16	0.15	0.12	0.21	0.16	0.14	0.16
Italy	0.17	0.09	0.16	0.15	0.08	0.11	0.12	0.12
Austria	0.04	0.10	0.07	0.08	0.08	0.14	0.18	0.12
DAC Total	0.52	0.34	0.33	0.34	0.32	0.30	0.33	0.32

Source: UNCTAD Document TD/B/C.3/125. 17th September 1975.

* In descending order of average performance in 1969-1974.

† Including flows to European recipient countries and territories, i.e., Cyprus, Gibraltar, Greece, Malta, Spain, Turkey and Yugoslavia.

TABLE 11

EXTERNAL RESOURCE FLOWS AND SERVICE PAYMENTS ON EXTERNAL PUBLIC AND PUBLICLY-GURANTEED OF 79 DEVELOPING COUNTRIES: 1967 — 1973

(millions of dollars)

Region(*a*)		1967	1968	1969	1970	1971	1972	1973
Africa								
Gross flows	..	1,885.0	1,903.9	2,119.2	2,706.8	2,981.8	3,663.9	5,903.3
Debt service	..	567.6	649.4	778.5	901.1	998.3	1,287.0	2,002.3
Net transfer	..	1,317.3	1,254.4	1,340.7	1,805.7	1,983.5	2,376.9	3,901.0
Asia(*b*)								
Gross flows	..	4,168.6	4,049.6	4,112.5	3,902.6	4,511.5	5,101.2	5,440.2
Debt service	..	871.6	928.7	1,146.8	1,397.1	1,522.9	1,773.2	2,076.1
Net transfer	..	3,297.0	3,120.9	2,965.8	2,505.5	2,988.7	3,328.0	3,364.1
Middle East								
Gross flows	..	746.1	1,152.2	959.5	1,583.0	1,995.3	2,488.0	3,176.2
Debt service	..	259.3	371.7	489.3	630.6	805.0	1,317.8	1,591.5
Net transfer	..	486.8	780.5	470.2	952.4	1,190.3	1,170.1	1,584.7
Western Hemisphere								
Gross flows	..	3,088.7	3.258.6	3,598.7	4,247.5	4,118.5	5,969.7	7,477.6
Debt service	..	1,797.0	2,131.5	2,226.6	2,490.9	2,701.1	3,050.9	4,116.4
Net transfer	..	1,291.8	1,127.1	1,372.2	1,756.6	1,417.5	2,918.7	3,361.2
Total, 79 developing countries								
Gross flows	..	9,888.3	10,364.3	10,790.1	12,439.9	13,607.0	17,222.9	21,997.4
Debt service	..	3,495.4	4,081.3	4,641.1	5,419.7	6,027.2	7,429.2	9,786.4
Net transfer	..	6,392.9	6,282.9	6,148.9	7,020.2	7,579.8	9,793.7	12,210.9

Source: UNCTAD Document TD/B/C.3/125. 17th September 1975.

(*a*) Country coverage of developing regions include the following:

Africa: Algeria; Botswana; Burundi; the Central African Republic; Chad; the Congo; Dahomey; Egypt; Ethiopia; Gabon; Gambia; Ghana; Ivory Coast; Kenya; Lesotho; Liberia; Madagascar; Malawi; Mali; Mauritania; Mauritius; Morocco; the Niger; Nigeria; Rwanda; Senegal; Sierra Leone; Somalia; Sudan; Switzerland; Togo; Tunisia; Uganda; United Republic of Cameroon; United Republic of Tanzania; Upper Volta; Zaire; Zambia, and the East African Communities.

Asia: Afghanistan; Bangladesh; Burma; Fiji, India; Indonesia; Korea; the Republic of Malaysia, Pakistan; the Philippines; Republic of South Viet-Nam; Singapore; Sri Lanka; Thailand.

Middle East: Iran; Iraq; Israel; Jordan; and the Syrian Arab Republic.

Western Hemisphere: Argentina; Bolivia; Brazil; Chile; Colombia; Costa Rica; the Dominican Republic; Ecuador; El Salvador; Guatemala; Guyana; Honduras; Jamaica; Mexico; Nicaragua; Panama; Paraguay; Peru; Trinidad and Tobago; Uruguay; and Venezuela.

(*b*) Does not include publicly-guaranteed private debt of the Philippines.

TABLE 12

SELECTED SAVINGS PERFORMANCE INDICATORS OF DEVELOPING COUNTRIES AND TERRITORIES 1950—1971*

(Percentages)

	SD/GDP	SN/GNP	MPS	MPS*	LMSN	LMSN*
Africa						
Algeria ..	26.1	25.3	39.8	28.2	53.7	43.3
Egypt ..	12.2	11.3	8.6	5.4	–0.9	–2.5
Nigeria ..	13.4	11.6	19.5	14.5	23.1	16.0
Senegal ..	7.2	5.2	60.0	36.2	30.7	27.4
Southern Rhodesia ..	28.1	26.1	47.3	20.6	31.9	28.5
Tunisia ..	13.5	11.5	23.8	31.0	34.6	44.1
United Republic of Tanzania	18.7	17.9	37.4	25.1	53.5	35.1
Upper Volta ..	10.9	12.6	9.8	10.3	3.4	4.8
Zambia ..	39.2	34.8	43.1	48.9	48.5	48.5
Asia and Middle East						
Burma ..	10.1	10.1	6.4	1.9	0.6	–6.3
India ..	15.6	15.0	23.8	20.2	37.5	31.4
Indonesia ..	9.4	8.7	21.1	28.3	31.2	57.0
Iran ..	27.7	21.0	32.8	29.2	27.5	18.5
Lebanon ..	12.3	14.4	20.2	23.4	23.3	28.2
Malaysia ..	29.5	27.9	42.8	26.9	60.3	42.8
Pakistan ..	10.6	10.5	16.3	18.0	20.9	23.7
Philippines ..	11.4	10.6	8.8	23.6	8.4	30.3
Sri Lanka ..	18.2	17.6	27.9	19.6	44.7	31.3
Latin America						
Argentina ..	21.0	20.5	28.9	23.1	35.7	26.2
Brazil ..	17.7	17.0	16.9	16.2	16.0	16.8
Chile ..	13.5	11.0	2.1	13.9	–25.2	11.1
Jamaica ..	22.8	19.1	25.8	22.9	27.3	25.5
Peru ..	14.2	12.3	–3.8	9.1	–37.1	–1.7
Venezuela ..	39.7	35.5	39.0	21.9	48.0	6.7

Source: UNCTAD document TD/B/C.3/124/Supp.1, 12 September 1975.

* For definitions and concepts, see coverleaf.

DEFINITIONS

SHR1	—	share of personal income received by the population in the lowest income quintile.
SHR2	—	share of personal income received by the population in the second lowest quintile.
SHR3	—	share of personal income received by the population in the third lowest quintile.
SHR4	—	share of personal income received by the population in the fourth lowest quintile.
SHR5	—	share of personal income received by the population in the 81st — 95th income percentiles.
SHR6	—	share of personal income received by the population in the 96th — 100th income percentiles.
SHRA	—	SHR1 + SHR2.
SHRB	—	SHR3 + SHR4.
SHRC	—	SHR5 + SHR6.
SN/GNP	—	average rate of saving out of GNP for the period indicated.
MPS	—	marginal propensity to save out of real GDP for the longest period available (GDP deflated by its price index).
CMPC	—	constant of the consumption function from which MPS was computed.
MPSN	—	marginal propensity to save out of *per capita* real GDP, for the longest period available (GDP deflated by its price index).
CMPCN	—	constant of the consumption function from which MPSN was computed.
MPSN*	—	MPSN estimated on the basis of time series deflated by the consumption price index.
CMPCN*	—	constant of the consumption function from which MPSN* was computed.
LMSN*	—	long-run marginal propensity to save out of *per capita* real GNP, for the longest period available, computed from a regression in which variations in consumption depended on variations in GNP and lagged consumption, all in *per capita* terms. (GNP deflated by the consumption price index.)

TABLE 13

Ratio of debt service payments[1] to exports of goods and services[2] in selected countries

(Percentages)

Country(3)	1965	1970	1971	1972	1973	*Average* 1970—1973
*Egypt	15.3	26.2	19.4	31.5	34.6	27.9
Uruguay	6.9	18.4	22.2	34.0	30.1	26.2
*India	15.0	28.0	25.9	24.5	20.1	24.6
Mexico	24.8	25.2	24.1	23.5	25.2	24.5
Peru	6.8	13.7	20.0	19.3	32.5	21.4
*Afghanistan	7.4	20.0	19.2	26.0	19.9	21.3
*Pakistan	11.0	24.3	19.4	23.4	16.1	20.8
Argentina	20.2	21.0	19.5	20.3	18.3	19.8
Korea, Republic of	2.8	23.4	21.7	18.8	13.9	19.5
Turkey	28.5	22.5	19.0	18.8	10.4	17.7
Israel	22.5	18.6	13.4	17.7	20.8	17.6
Tunisia	7.7	19.5	16.9	16.3	13.8	16.6
*Burma	4.6	16.1	14.2	17.5	18.6	16.6
Chile	12.4	18.3	21.0	11.6	11.0	15.5
Brazil	12.4	15.3	15.8	14.3	13.9	14.8
Bolivia	4.8	10.9	12.2	17.9	14.8	14.0
Zambia	2.7	5.1	10.0	10.7	28.0	13.5
Colombia	14.4	11.9	14.8	12.6	13.0	13.1
Nicaragua	4.3	10.6	13.4	10.3	17.8	13.0
Iran	5.4	11.5	11.5	17.1	10.6	12.7
*Sri Lanka	2.0	9.7	10.8	14.2	12.6	11.8
Paraguay	4.2	11.0	13.1	13.2	9.5	11.7
*Sudan	5 5	9 2	12.1	12.3	11.1	11.2
Panama	2.8	7.8	9.3	10.8	16.4	11.1
Morocco	4.8	8.3	11.6	10.7	9.7	10.1
Costa Rica	10.3	9.7	10.1	10.0	10.2	10.0
Ecuador	6.5	9.1	12.2	10.6	7.5	9.9
Algeria	—	7.4	9.7	10.9	11.3	9.8
Greece	4 0	8.4	10 2	9.1	9.7	9.4
*Ethiopia	5.0	11.6	10.6	8.7	6.4	9.3
Malawi	6.4	8.7	8.8	8.9	9.0	8.9
Congo	6.5	7.8	8.0	8.3	10.7	8.7
*Sierra Leone	5.7	9.0	8.5	8.6	8.4	8.6
*United Rep. of Tanzania ..	4.5	7.2	8.4	11.6	6.7	11.5
Syrian Arab Republic ..	5.5	9.2	8.9	8.1	7.3	8.4
Philippines	5.4	7.5	7.0	9.9	6.3	7.7
Guatemala	5.2	7.7	8.2	10.6	3.8	7.6
Swaziland	4.5	4.7	5.3	9.5	10.5	7.5
Yugoslavia	14.4	9.6	6.5	6.4	6.9	7.4
Indonesia	10.3	6.6	7.6	6.7	7.1	7.0
Liberia	8.4	8.0	7.1	6.7	6.3	7.0
Gabon	—	5.2	7.1	7.0	7.3	6.7
*Ivory Coast	4.5	6.0	6 8	7.2	6.3	6.6
*Upper Volta	2.1	5.9	5.9	5.1	8.3	6.3
*Lesotho	2.5	8.5	7.1	5.1	3.2	6.0

Algeria	—	7.4	9.7	10.9	11.3	9.8
Greece	4 0	8.4	10 2	9.1	9.7	9.4
*Ethiopia	5.0	11.6	10.6	8.7	6.4	9.3
Malawi	6.4	8.7	8.8	8.9	9.0	8.9
Congo	6.5	7.8	8.0	8.3	10.7	8.7
*Sierra Leone	5.7	9.0	8.5	8.6	8.4	8.6
*United Rep. of Tanzania ..	4.5	7.2	8.4	11.6	6.7	11.5
Syrian Arab Republic ..	5.5	9.2	8.9	8.1	7.3	8.4
Philippines	5.4	7.5	7.0	9.9	6.3	7.7
Guatemala	5.2	7.7	8.2	10.6	3.8	7.6
Swaziland	4.5	4.7	5.3	9.5	10.5	7.5
Yugoslavia	14.4	9.6	6.5	6.4	6.9	7.4
Indonesia	10.3	6.6	7.6	6.7	7.1	7.0
Liberia	8.4	8.0	7.1	6.7	6.3	7.0
Gabon	—	5.2	7.1	7.0	7.3	6.7
*Ivory Coast	4.5	6.0	6 8	7.2	6.3	6.6
*Upper Volta	2.1	5.9	5.9	5.1	8.3	6.3
*Lesotho	2.5	8.5	7.1	5.1	3.2	6.0
Zaire	—	4.0	4.6	7.5	7.0	5.8
*United Rep. of Cameroon ..	—	4.6	4.9	7.7	5.4	5.7
*Uganda	—	4.6	6.2	6.0	5.6	5.6
*Kenya	5.9	5.3	5.8	5.7	5.2	5.5
Dominican Republic	19.2	5.1	6.7	4.1	4.5	5.1
*Senegal	—	2.3	5.1	3.7	8.1	4.8
*El Salvador	3.6	3.7	5.8	3.1	5.3	4.5
*Ghana	19.0	5.0	7.1	3.0	2.3	4.4
*Chad	—	3.2	8.1	1.7	—	4.3
*Guyana	4.1	4.0	2 8	4 9	5.4	4.3
Jamaica	1.9	3.2	3.9	5.2	5.0	4.3
*Madagascar	—	3.6	4.4	3.9	5.0	4.2
Spain	2.1	4.0	5.2	3.5	3.6	4.1
Malta	0.7	2.0	12.5	0.7	0.6	4.0
Jordan	1.2	3.6	3.8	4.7	3.7	4.0
Togo	2.2	3.2	2.9	4.9	4.7	3.9
Venezuela	1.8	2.6	3.3	4.4	4.2	3.6
Trinidad and Tobago	3.7	3.7	3.3	3.0	4.1	3.5
*Dahomey	3.0	2.9	4.4	3.1	—	3.5
*Burundi	—	1.9	2.2	7.0	3.0	3.5
*Mauritania	—	3.1	3.0	5.5	2.1	3.4
*Niger	1.3	3.9	3.1	2.9	—	3.3
*Honduras	2.4	2.8	3.2	3.4	3.9	3.3
Mauritius	2.3	3.7	5.1	2.1	1.7	3.2
Thailand	3.7	3.6	3.4	2.9	2.6	3.1
Nigeria	3.2	4.0	2.8	2.4	2.1	2.8
*Somalia	1.3	2.1	2.5	3.0	3.6	2.8
*Central African Republic ..	—	3.2	2.1	1.5	4.0	2.7
Malaysia	1.3	3.0	2.7	2.7	2.3	2.7
Cyprus	1.5	2.5	2.9	2.2	2.0	2.4
Iraq	1.2	2.1	1.9	2.7	3.0	2.4
Botswana	3.7	2.1	1.4	2.0	2.5	2.0
*Rwanda	—	1.2	1.8	2.4	1.3	1.7
Republic of South Viet-Nam ..	2.9	0.8	0.9	2.2	2.7	1.7
*Mali	8.4	1.8	0.7	1.2	1.6	1.3
Fiji	0.8	0.9	0.7	0.9	0.8	0.8
Singapore	0.1	0.4	0.4	0.9	0.4	0.5
Gambia(4)	—	—	—	—	—	—

Source: UNCTAD document TD/B/C.3/131, 15 September, 1975.
Note: Countries marked with an asterisk(*) have been indentified as most seriously affected (MSA) countries.
(1) Debt service payments on public and publicly-guaranteed debt.
(2) For certain countries for which exports of goods and services were not available, exports of goods only were used.
(3) Ranked by average ratio for period 1970–1973.
(4) Debt service ratio less than 0.1 per cent.

TABLE 14

Development Assistance Committee Countries: Estimated Stock of Foreign Direct Investment in Developing Countries, by Sector and Developing Region, End 1967

(Value and percentage)

Sector(a)	Total (millions of dollars)	Share in Total stock of DAC countries (percentage)	Distribution among developing regions (percentage)			
			Africa	Western hemisphere	Middle East	Asia
Petroleum	10,962	33.1	23.7	40.9	25.3	10.1
Manufacturing	9,627	29.1	12.8	69.1	2.0	16.1
Mining and smelting	3,554	10.7	36.0	56.7	0.2	7.1
Trade	2,601	7.8	15.3	64.1	1.2	19.4
Agriculture	2,046	6.2	24.3	29.7	0.1	45.9
Public utilities	1,570	4.7	4.2	87.3	0.7	7.8
Transport	676	2.0	32.8	54.4	2.7	10.1
Banking	588	1.8	23.9	48.7	4.7	22.7
Tourism	448	1.4	9.8	57.9	4.0	28.3
Others	1,063	3.2	10.4	69.2	2.2	18.2
TOTAL	33,135	100.0	19.9	55.6	9.4	15.1

Source: U. N. Multinational Corporations in World Development — ST/ECA/190.

(*a*) Sectors are arranged in descending order of value of stock of direct private investment in developing regions.

TABLE 15

United States Multinational Corporations: average size* of foreign affiliates by sector and area, 1966

(Thousands of dollars)

Sector	*World total*	*Developing countries* †	*Developed market economies*
Mining and smelting ..	8,330	7,668	8,906
Petroleum	8,746	8,981	8,486
Manufacturing ..	2,361	1,399	2,761
Public utilities ..	2,165	2,646	1,397
Trade	1,114	1,219	1,070
Other	818	477	1,044
TOTAL, all sectors	2,350	2,186	2,440

Source: U.N. Multinational Corporations in World Development – ST/ECA/190.

* Book value divided by number of affiliates.

† Includes international shipping.

TABLE 16

Developed and Developing Countries: Distribution of Gross Domestic Product, Exports and Book Value of Foreign Direct Investment of Market Economies, 1967

(Percentage)

Area	*Gross domestic product*	*Exports*	*Book value of direct investment by DAC countries*
Developed countries.. ..	84.2	78.9	68.2
Developing countries ..	15.8	21.1	31.8
TOTAL, market economies ..	100.0	100.0	100.0

Source: U.N. Multinational Corporations in World Development — ST/ECA/190.

TABLE 17

Market Economies : International Production and Exports, 1971

(Millions of dollars)

Country *	*Stock of foreign direct investment (book value)*	*Estimated International production* †	*Exports*	*International production as percentage of exports*
United States	86,000	172,000	43,492	395.5
United Kingdom ..	24,020	48,000	22,367	214.6
France	9,540	19,100	20,420	93.5
Federal Republic of Germany	7,270	14,600	39,040	37.4
Switzerland	6,760	13,500	5,728	235.7
Canada	5,930	11,900	17,582	67.7
Japan	4,480	9,000	24,019	37.5
Netherlands	3,580	7,200	13,927	51.7
Sweden	3,450	6,900	7,465	92.4
Italy	3,350	6,700	15,111	44.3
Belgium	3,250	6,500	12,392 ‡	52.4
Australia	610	1,200	5,070	23.7
Portugal	320	600	1,052	57.0
Denmark	310	600	3,685	16.3
Norway	90	200	2,563	7.8
Austria	40	100	3,169	3.2
TOTAL, above ..	159,000	318,000	237,082	133.7
Other ..	6,000	12,000	74,818	16.0
TOTAL, market economies	165,000	330,000	311,900	105.8

Source: U. N. Multinational Corporations in World Development — ST/ECA/190.

(*) Countries are listed in descending order of book value of foreign direct investment.

(†) Estimated international production equals the book value of foreign direct investment multiplied by the factor 2.0. The estimate of this factor was derived as follows: the ratio of foreign sales to book value of foreign direct investment has been estimated from 1970 United States data on gross sales of majority-owned foreign affiliates and book value of United States direct investment. "Gross sales of majority-owned foreign affiliates" (approximately $157 billion) includes transactions between foreign affiliates and parent corporations (approximately $20.3 billion) and inter-foreign affiliate sales (approximately $28.1 billion), which together account for about 30 per cent of gross foreign affiliate sales. The book value of United States foreign direct investment in 1970 amounted to $78.1 billion. The resulting ratio of gross sales to book value is 2:1 This ratio has been used to estimate the international production of non-United States foreign affiliates.

(‡) Includes Luxembourg.

TABLE 18

Selected Developing Countries: Payments of Royalties and Fees and Their Relationship to Gross Domestic Product and to Export Earnings

(Millions of dollars and percentage)

Country	*Year*	*Payments royalties and fees* (millions of dollars)*	*Share of Payments*	
			Gross domestic product	*Exports*
			(percentage)	
Argentina ..	1969	127.7	0.72	7.9
Brazil ..	1966-1968†	59.6	0.26	3.4
Colombia ..	1966	26.7	0.50	5.3
Mexico ..	1968	200.0	0.76	15.9
Nigeria ..	1965	33.8	0.78	4.2
Sri Lanka ..	1970	9.3	0.51† ‡	2.9‡
TOTAL, above and non-weighted average ..		457.1	0.68	7.3

Source: U.N. Multinational Corporations in World Development — ST/ECA/190.

(*) Includes payments by the private sector only for patents, licenses, know-how, trademarks and management and other technical services.

(†) Annual average.

(‡) 1969.

TABLE 19

Selected Developing Countries: Current Inflow of Foreign Direct Investment and outflow of Income on Accumulated Past Direct Investment, 1 by Region, 1965—1970

(Millions of dollars)

Region	1965	1966	1967	1968	1969	1970
Africa, total						
A. Inflow	182.2*b*	163.7	241.5	201.6	235.5	270.7
B. Outflow	380.8*b*	718.8	708.6	963.3	924.3	996.2
C. Balance	—918.6	-555.1	-467.1	-762.1	-688.8	-725.5
Non-oil producing countries(*c*)						
A. Inflow	135.5	74.7	61.5	53.6	46.5	42.7
B. Outflow	49.3	53.8	56.6	57.7	56.3	60.2
C. Balance	84.2	20.9	4.9	-9.8	-9.8	-17.5
Oil-producing countries(*d*)						
A. Inflow	48.7*b*	89.0	180.0	148.0	189.0	228.0
B. Outflow	331.5*b*	665.0	652.0	906.0	868.0	936.0
C. Balance	-282.8	-576.0	-472.0	-758.0	-679.0	-708.0
Western hemisphere, total						
A. Inflow	723.3	780.5	647.5	1,011.4	1,088.6	1,141.9
B. Outflow	1,437.9	1,752.7	1, 93.4	2,021.4	2,093.0	1,943.7
C. Balance	-714.6	-972.2	-1,145.9	-1,010.0	-1,004.4	-801.8
Non-oil producing countries(*e*)						
A. Inflow	642.3	671.5	567.5	827.4	964.6	1,067.9
B. Outflow	722.9	1,043.7	1,119.4	1,291.4	1,418.0	1,382.7
C. Balance	-80.6	-372.2	-551.9	-464.0	-453.4	-314.8
Oil-producing countries						
A. Inflow	81.0	109.0	80.0	184.0	124.0	74.0
B. Outflow	715.0	709.0	674.0	730.0	675.0	651.0
C. Balance	-634.0	-600.0	-594.0	-546.0	-551.0	-487.0
Asia and West Asia, total						
A. Inflow	436.9	271.2	185.0	159.0	189.5	200.1
B. Outflow	1,367.4	1,592.4	1,744.2	1,997.5	2,138.5	2,401.9
C. Balance	-930.5	-1,321.2	-1,559.2	-1,838.5	-1,949.0	-2,201.8
Asia and West Asia Non-oil producing countries(*g*)						
A. Inflow	131.0	95.2	60.0	94.0	116.5	180.1
B. Outflow	168.7	150.4	204.2	239.5	246.5	235.9
C. Balance	-37.7	-55.2	-144.2	-145.5	-130.0	-55.8
Oil-producing countries(*h*)						
A. Inflow	305.9	176.0	125.0	65.0	73.0	20.0
B. Outflow	1,198.7	1,442.0	1,540.0	1,758.0	1,892.0	2,166.0
C. Balance	-892.8	-1,266.0	-1,415.0	-1,693.0	-1,819.0	-2,146.0
Selected developing countries, total						
A. Inflow	1,342.4*b*	1,215.4	1,074.0	1,372.0	1,513.6	1,612.7
B. Outflow	3,186.1*b*	4,063.9	4,246.2	4,982.6	5,155.8	5,341.8
C. Balance	-1,843.7	-2,848.5	-3,172.2	- 3,610.6	-3,642.2	-3,729.1
Non-oil producing countries, total						
A. Inflow	906.8	841.4	689.0	975.0	1,127.6	1,290.7
B. Outflow	940.9	1,247.9	1,380.2	1,588.6	1,720.8	1,678.8
C. Balance	-34.1	-406.5	-691.2	-613.6	-593.2	-388.1
Oil-producing countries, total						
A. Inflow	435.6*b*	374.0	385.0	397.0	386.0	322.0
B. Outflow	2,245.2*b*	2,816.0	2,866.0	3,394.0	3,425.0	3,663.0

Non-oil producing countries(*c*)						
A. Inflow	135.5	74.7	61.5	53.6	46.5	42.7
B. Outflow	49.3	53.8	56.6	57.7	56.3	60.2
C. Balance	84.2	20.9	4.9	–9.8	–9.8	–17.5
Oil-producing countries(*d*)						
A. Inflow	48.7*b*	89.0	180.0	148.0	189.0	228.0
B. Outflow	331.5*b*	665.0	652.0	906.0	868.0	936.0
C. Balance	–282.8	–576.0	–472.0	–758.0	–679.0	–708.0
Western hemisphere, total						
A. Inflow	723.3	780.5	647.5	1,011.4	1,088.6	1,141.9
B. Outflow	1,437.9	1,752.7	1, 93.4	2,021.4	2,093.0	1,943.7
C. Balance	–714.6	–972.2	–1,145.9	–1,010.0	–1,004.4	–801.8
Non-oil producing countries(*e*)						
A. Inflow	642.3	671.5	567.5	827.4	964.6	1,067.9
B. Outflow	722.9	1,043.7	1,119.4	1,291.4	1,418.0	1,382.7
C. Balance	–80.6	–372.2	–551.9	–464.0	–453.4	–314.8
Oil-producing countries						
A. Inflow	81.0	109.0	80.0	184.0	124.0	74.0
B. Outflow	715.0	709.0	674.0	730.0	675.0	651.0
C. Balance	–634.0	–600.0	–594.0	–546.0	–551.0	–487.0
Asia and West Asia, total						
A. Inflow	436.9	271.2	185.0	159.0	189.5	200.1
B. Outflow	1,367.4	1,592.4	1,744.2	1,997.5	2,138.5	2,401.9
C. Balance	–930.5	–1,321.2	–1,559.2	–1,838.5	–1,949.0	–2,201.8
Asia and West Asia						
Non-oil producing countries(*g*)						
A. Inflow	131.0	95.2	60.0	94.0	116.5	180.1
B. Outflow	168.7	150.4	204.2	239.5	246.5	235.9
C. Balance	–37.7	–55.2	–144.2	–145.5	–130.0	–55.8
Oil-producing countries(*h*)						
A. Inflow	305.9	176.0	125.0	65.0	73.0	20.0
B. Outflow	1,198.7	1,442.0	1,540.0	1,758.0	1,892.0	2,166.0
C. Balance	–892.8	–1,266.0	–1,415.0	–1,693.0	–1,819.0	–2,146.0
Selected developing countries, total						
A. Inflow	1,342.4*b*	1,215.4	1,074.0	1,372.0	1,513.6	1,612.7
B. Outflow	3,186.1*b*	4,063.9	4,246.2	4,982.6	5,155.8	5,341.8
C. Balance	–1,843.7	–2,848.5	–3,172.2	– 3,610.6	–3,642.2	–3,729.1
Non-oil producing countries, total						
A. Inflow	905.8	841.4	689.0	975.0	1,127.6	1,290.7
B. Outflow	940.9	1,247.9	1,380.2	1,588.6	1,720.8	1,678.8
C. Balance	–34.1	–406.5	–691.2	–613.6	–593.2	–388.1
Oil-producing countries, total						
A. Inflow	435.6*b*	374.0	385.0	397.0	386.0	322.0
B. Outflow	2,245.2*b*	2,816.0	2,866.0	3,394.0	3,425.0	3,663.0
C. Balance	–1,809.6	–2,442.0	–2,481.0	–2,997.0	–3,049.0	–3,341.0

Source: U.N. Multinational Corporations in World Development — ST/ECA/190.

(*a*) All statistics — inflows and outflows — are expressed in gross figures.
(*b*) Excluding Algeria.
(*c*) Ethiopia, Ivory Coast, Malawi, Maruitius, Sierra Leone, Sudan, Tunisia.
(*d*) Algeria, Libyan Arab Republic, Nigeria.
(*e*) Argentina, Barbados, Bolivia, Brazil, Chile, Colombia, Costa Rica, Ecuador, El Salvador, Guatemala, Guyana, Haiti, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru, Surinam, Trinidad and Tobago.
(*f*) Venezuela.
(*g*) Indonesia, Israel, Lebanon, Philippines, Sri Lanka, Thailand, Republic of Viet-Nam.
(*h*) Iran, Iraq, Saudi Arabia.

TABLE 20

Indices of External Trade of Sri Lanka
1967 = 100

Year	EXPORT			IMPORT		
	Volume	Price	Value	Volume	Price	Value
1938	57	28	16	58	23	15
1948	68	85	58	69	57	71
1949	68	89	62	76	69	72
1950	75	121	93	82	73	83
1951	76	146	113	93	93	106
1952	77	113	88	93	93	117
1953	79	115	93	94	93	109
1954	82	128	107	87	86	92
1955	86	134	116	98	83	94
1956	81	125	102	109	83	107
1957	79	120	98	116	88	112
1958	84	118	102	118	81	112
1959	82	122	104	136	83	127
1960	87	122	109	133	83	122
1961	90	112	101	107	82	104
1962	97	109	109	108	77	99
1963	93	109	105	93	85	91
1964	102	111	113	114	105	113
1965	105	113	118	86	100	83
1966	96	107	103	118	98	117
1967	100	100	100	100	100	100
1968	103	117	121	101	126	126
1969	98	117	115	108	134	140
1970	102	118	120	102	140	131
1971	99	117	116	90	150	115
1972	97	118	113	88	158	115
1973	98	137	151	79	209	128
1974	85	213	171	56	370	201

Source: Central Bank of Ceylon.

TABLE 21

Percentage composition of Export Earnings Sri Lanka 1965 — 1974

	Unit	1965	1970	1971	1972	1973	1974
Total value of exports ..	Rs. million	**1949**	**2033**	**1947**	**2009**	**2617**	**3472**
1. Tea	Percentage	62.08	55.09	58.76	57.84	48.18	39.17
2. Rubber	Percentage	15.60	21.64	15.77	13.19	22.62	21.26
3. Coconut products: ..	Percentage	14.11	11.80	14.38	13.24	5.54	11.43
of which:							
i. Copra	Percentage	2.46	1.13	1.23	2.58	0.15	0.03
ii. Coconut oil ..	Percentage	7.39	5.71	7.65	6.57	1.03	4.06
iii. Desiccated Coconut	Percentage	4.26	4.82	5.29	3.88	4.24	7.26
iv. Fresh Nuts ..	Percentage	—	0.15	0.20	0.20	0.11	0.09
4. Precious and Semi-precious stones ..	Percentage	—	0.20	0.15	0.60	5.39	3.14
5. Other Domestic Exports	Percentage	6.52	9.39	10.07	10.85	13.22	24.28
6. Re-exports	Percentage	1.69	1.87	1.87	0.80	0.80	0.72

Source: Marga Institute.
Based on Central Bank Reports.

TABLE 22

The Percentage Composition of the Import Bill—Sri Lanka 1965—1974

	1965	1970	1971	1972	1973	1974
(1) Total Value of Imports (Rs. Million) ..	**1474**	**2385.5**	**2091.6**	**2203.8**	**2693.7**	**4554**
(2) Consumer Goods	**52.8**	**53.6**	**53.1**	**48.5**	**52.8**	**47.0**
A. Food and Drink	41.0	44.2	42.7	41.6	46.3	42.8
i. Rice	9.8	13.3	9.3	7.3	10.0	15.8
ii. Flour	6.6	10.9	9.8	8.8	16.8	18.8
iii. Refined Sugar	4.8	7.1	11.6	11.2	11.9	4.2
iv. Sakkara, Jaggery and Sugarcane ..	0.1	0.0	0.0	0.0	—	—
v. Milk and Milk Products ..	5.2	2.3	2.2	2.6	2.6	1.5
vi. Dried fish and dried prawns (excluding Maldive Fish) ..	2.9	2.2	2.5	2.8	1.4	0.7
vii. Other fish	0.9	0.6	0.9	0.9	0.5	0.4
viii. Eggs and other meat	0.3	—	0.0	0.0	—	—
ix. Grams and pulses	2.6	2.6	2.1	4.4	1.1	0.4
x. Onions	1.4	1.4	0.5	0.1	0.1	—
xi. Chillies	2.0	1.1	1.4	1.1	0.1	—
xii. Other food	1.2	2.5	2.1	2.2	1.6	0.9
B. Textiles including clothing	7.3	5.2	4.9	2.2	2.0	1.3
C. Other Consumer Goods	4.6	4.2	5.5	4.7	4.4	2.8
i. Motor cars	0.2	0.4	0.3	0.5	0.3	0.3
ii. Radio Receivers	0.1	0.0	0.0	0.1	0.1	—
iii. Rubber tyres and tubes	0.5	0.5	0.5	0.2	0.4	0.2
iv. Medicinal and Pharmaceutical products	1.4	1.2	1.6	1.9	1.3	1.0
v. Other consumer goods	0.1	2.1	3.0	2.0	2.3	1.3
(3) Intermediate Goods	**28.1**	**22.4**	**24.2**	**29.1**	**29.5**	**42.1**
i. Fertilizers	6.0	3.4	2.8	2.9	4.1	4.9
ii. Petroleum products	7.4	5.5	6.3	8.1	10.2	19.9
iii. Coal	0.7	0.2	0.2	0.0	0.1	0.1
iv. Chemical elements & Compounds ..	2.0	2.3	3.2	3.3	4.0	5.1
v. Dyeing, Tanning and colouring materials	0.6	0.4	0.5	0.6	0.4	0.5
vi. Tea and other chests	0.8	0.4	1.0	0.4	0.2	0.4
vii. Paper and Paper Board ..	1.9	1.9	2.3	1.9	1.5	1.4
viii. Yarn and Thread	2.8	1.7	1.9	2.8	0.8	1.4
ix. Unmanufactured tobacco ..	0.6	0.1	0.2	0.0	0.1	0.2
x. Wheat and Meslin (not ground or otherwise worked)	—	0.5	1.1	2.0	2.3	2.6
xi. Other intermediate goods ..	—	6.0	5.3	7.1	5.8	5.7
(4) Investment goods	**17.7**	**22.9**	**20.0**	**19.9**	**16.8**	**10.0**
i. Cement	1.2	0.3	0.1	0.1	0.1	—
ii. Other building materials.. ..	2.1	4.7	5.5	5.4	3.9	3.2
iii. Transport equipment	6.5	5.3	3.6	4.9	3.5	2.0
iv. Machinery and equipment ..	6.8	11.6	9.6	8.2	8.3	4.1
v. Other investment goods	—	1.0	1.2	1.3	1.0	0.7
(5) Total (items 2, 3 and 4)	**98.6**	**98.9**	**97.8**	**97.5**	**99.0**	**99.1**
(6) Unclassified Imports	**1.4**	**1.0**	**2.1**	**2.5**	**1.0**	**0.9**

Source: Marga Institute.

Based on data from Customs Department,
Central Bank Reports, Food Commissioner, and Petroleum Corporation.

TABLE 23

Trade with USSR., Eastern Europe and People's Republic of China — Sri Lanka: 1970 — 1974

(Rupees Million)

Country or Group	*Activity*	1970	1971	1972	1973	1974
SRI LANKA	Total Value of Exports	2033	1947	2009	2617	3472
	Total Value of Imports	2313	1986	2064	2715	4554
U S S R	Exports f.o.b.	82	97	64	63	99
	Imports c.i.f.	40	64	23	47	145
	Balance of Trade	42	33	41	15	–46
	% of Total value of Exports	4.0	5.0	3.2	2.4	2.8
	% of Total value of Imports	1.7	3.2	1.1	1.7	3.2
	Trade Turnover	122	161	87	110	244
	% of Total Trade Turnover	2.8	4.1	2.1	2.1	3.0
EASTERN EUROPE*	Exports f.o.b.	92	83	81	132	177
	Imports c.i.f.	145	87	59	55	197
	Balance of Trade	–53	–4	22	77	–20
	% of Total value of Exports	4.5	4.3	4.0	5.0	5.1
	% of Total value of Imports	6.3	4.4	2.9	2.0	4.3
	Trade Turnover	237	170	140	187	374
	% of Total Trade Turnover	5.4	4.3	3.4	3.5	4.7
PEOPLE'S REPUBLIC OF CHINA	Exports f.o.b.	252	181	160	241	267
	Imports c.i.f.	289	161	96	211	359
	Balance of Trade	–37	+20	+60	+30	—92
	% of Total value of Exports	12.4	9.4	8.0	9.2	7.7
	% of Total value of Imports	12.5	8.1	4.6	7.8	7.9
	Trade Turnover	541	342	256	452	·626
	% of Total Trade Turnover	12.4	8.7	6.3	8.5	7.8

* Bulgaria, Czechoslovakia, German Democratic Republic, Hungary, Poland, Rumania and Yugoslavia.

Source: Marga Institute.

Based on data from Central Bank Report.

TABLE 24

External Resources and Their Use — Sri Lanka: 1971—1974

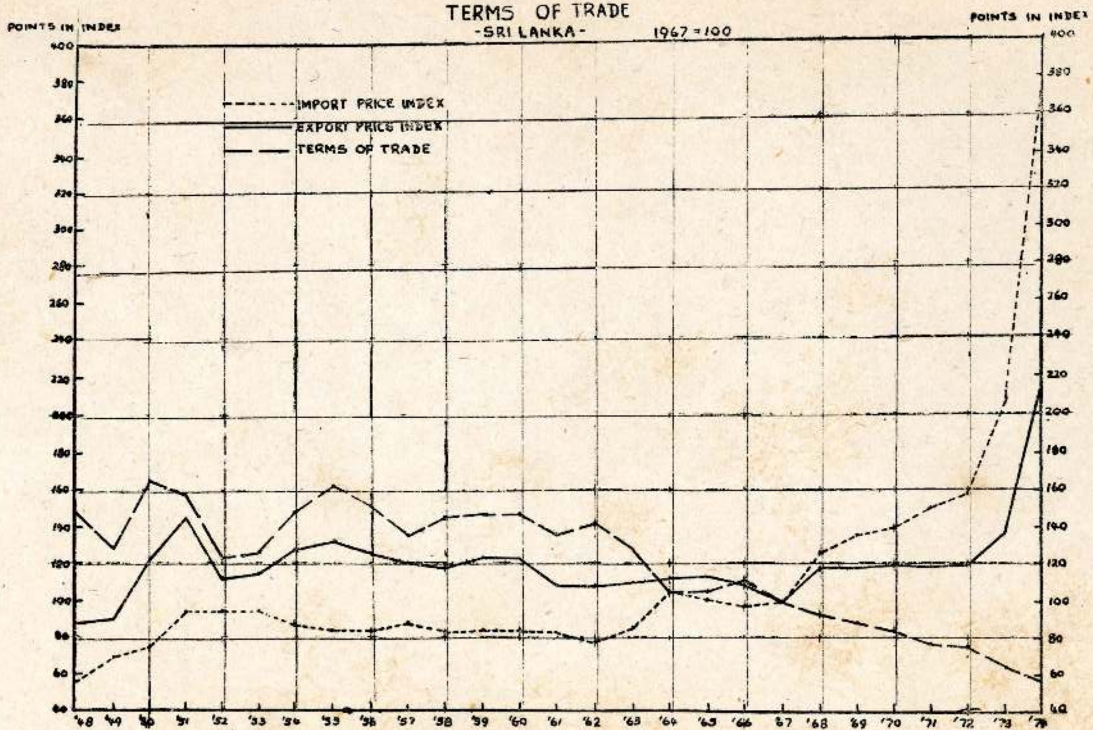
Item	Rupees Million				Percentage share			
	1971	1972	1973	1974*	1971	1972	1973	1974*
A. Resources								
1. Merchandise exports f.o.b. ..	1930	1898	2346	3376	51	51	53	52
2. Services Account	333	332	437	499	9	9	10	8
3. Capital inflow	628	525	424	697	16	14	10	11
of which:								
(a) Loans	346	402	335	431	9	11	8	7
(b) Other Aid[2]	152	13	—	—	4	—	—	—
(c) Grants[1]	105	100	83	254	3	3	2	4
(d) Private Capital	25	10	6	12	—	—	—	—
4. Short-term Liabilities	903	989	1207	1841	24	26	27	29
(a) Gross drawings from the international Monetary Fund	83	163	137	106	2	4	2	2
(b) Oil Facility Drawings ..	—	—	—	271	—	—	—	4
(c) Special Drawing Rights ..	63	62	—	—	2	2	—	—
(d) Increase in balances in Bilateral payments Agreements	—	—	35	167	—	—	1	3
(e) Borrowings from abroad ..	—	12	—	16	—	—	—	—
(f) Short-term Credits ..	658	593	781	836	17	16	18	13
(g) Suppliers' Credits	58	52	240	429	2	1	5	7
(h) Other	41	107	14	16	1	3	—	—
5. Decline in External Assets (net of Sterling Loan Sinking Funds) ..	—	—	—	—	—	—	—	—
Total	3794	3744	4414	6413	100	100	100	100
B. Use								
6. Merchandise imports c.i.f. ..	2217	2153	2644	4603	58	58	60	72
of which Aid	509	554	658	1114	13	15	15	17
7. Services Account	367	373	380	424	10	10	9	7
of which								
(a) Investment Income ..	134	125	127	148	3	3	3	2
(b) Private transfers	40	50	46	56	1	1	1	1
8. Capital Amortization ..	132	133	151	177	3	4	3	3
(a) Official	96	125	146	173	2	3	3	3
(b) Private	36	8	5	4	1	1	—	—
9. Short-term Liabilities	976	873	1131	1187	26	22	25	18
(a) Repurchases from the IMF	145	170	169	162	4	5	4	3
(b) Decrease in balances in Bilateral Payments Agreements	57	11	—	—	2	2	2	—
(c) Borrowing from abroad ..	81	—	112	—	2	—	3	—
(d) Short-term Credits ..	614	570	644	788	16	15	15	12
(e) Suppliers' Credits	65	84	95	214	2	2	2	3
(f) Other	14	38	111	23	—	—	3	—
10. Increase in External Assets (net of Sterling Loan Sinking Funds) ..	89	224	121	-34	2	6	3	1
11. Balancing item	13	-12	-13	-12	—	—	—	—
Total	3794	3744	4414	6413	100	100	100	100

Source: Central Bank of Ceylon.

* Provisional.

1. Includes assistance received in the form of Project and Commodity Aid.
2. Currency Loan from the Peoples' Republic of China. Figures have been rounded off.

TERMS OF TRADE
-SRI LANKA- 1967 = 100



TERMS OF TRADE = $\frac{\text{EXPORT PRICE INDEX}}{\text{IMPORT PRICE INDEX}}$ X 100

SOURCE: CENTRAL BANK OF CEYLON

A BIBLIOGRAPHY OF SELECTED UNCTAD DOCUMENTS

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	Salient Features of World Trade and Development	July 1975	TD/B/(XV)/Misc.1
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