

Towards a New International Economic Order

A further report by a
Commonwealth Experts' Group



Commonwealth Secretariat

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Commonwealth Secretariat, Marlborough House, London SW1

Foreword by the Commonwealth Secretary-General

At Kingston in May 1975 Commonwealth Heads of Government invited a small group of experts from member countries to propose practical measures, in the context of the current international dialogue, directed at closing the gap between rich and poor countries. The Interim Report of the group of ten experts, with Mr. Alistair McIntyre as Chairman, was given general endorsement by Commonwealth Finance Ministers in Georgetown in August 1975. Ministers then requested me to make the Interim Report available to the international community, particularly in the context of the Seventh Special Session of the United Nations General Assembly.

The Group of Experts, at their meeting in London from 19 February to 2 March 1976, completed a further Report concentrating on certain specific issues which the Group considered specially relevant to the forthcoming discussions at UNCTAD IV in Nairobi in May 1976. Despite the fact that there has not been an opportunity for this further Report to be considered collectively by Commonwealth Governments, it is felt that its publication at this stage, without any commitment by Commonwealth Governments to its recommendations, may be a useful contribution to the on-going international dialogue.

It should be emphasised that the Report was prepared and signed by the members of the Experts' Group in their personal capacities, and not as representatives of Governments or countries. Its release at this stage does not imply that the Report necessarily represents the views of Commonwealth Governments nor does its publication commit them individually or collectively to its recommendations. The intention of publication is to contribute to the current dialogue in the international community by making available the considered views of an independent group of experts.


Shridath S. Ramphal

Letter of presentation

H. E. Mr. S. S. Ramphal
Commonwealth Secretary-General
Marlborough House
London SW1

Dear Secretary-General,

Further to our Interim Report of last July, we have the honour to transmit a second report on a programme of practical measures directed at closing the gap between the rich and poor countries. Our intention is to prepare a final report to be available in time for the next meeting of Commonwealth Heads of Government.

With our final report we hope to have covered the terms of reference given to us by the Commonwealth Heads of Government Meeting in Kingston in May 1975 and as further discussed by the Commonwealth Finance Ministers Meeting in Georgetown last August.

We considered it advisable at this stage to concentrate on a few specific issues which will be discussed at UNCTAD IV, on the assumption that Commonwealth Governments might welcome early receipt of our further views on these subjects.

As in the case of the Interim Report, the members of the Group in signing this Report do so in their personal capacities, and not as representatives of governments or countries. They have subscribed to the broad consensus it represents. It should surprise no one that, in order to reach a consensus on such crucial and complex issues, differences of opinion have had to be accommodated.

We wish to express our continuing gratitude to you for the deep interest which you have taken in our work. We are also indebted to those members of the staff in the Secretariat, who have provided us with support services. Special thanks are due

to Mr. Arthur Hazlewood and Mr. Q. S. Siddiqi, who served us admirably as Secretary and Assistant Secretary respectively, and to Mr. Frank Rampersad, Director of the Trade and Finance Division, who assisted us at all stages of the work.

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2 March 1976

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1. Introduction

The Seventh Special Session and beyond

1. The months since the middle of 1975, when we wrote our Interim Report, have brought positive progress in the development of an organised dialogue on the implementation of a new international economic order. The Seventh Special Session of the United Nations General Assembly identified the common ground that existed between the developed and developing countries, and outlined some directions for further discussion of unresolved issues. We consider that all parties recognise the importance of building upon the conclusions of the Seventh Special Session, by coming to early agreement on specific programmes of action for the benefit of the developing countries. We see UNCTAD IV as offering an invaluable and timely forum for coming to decisions on the important elements of a new programme of international co-operation.
2. Full account should also be taken of the work going on in the Conference on International Economic Co-operation, which has begun meeting in Paris. We consider that discussions among groups of countries could contribute to the building of a global consensus. Accordingly, we would hope that discussions in Paris and in other forums would be mutually reinforcing in the direction of getting quick agreement on major issues. The important thing is that everyone must be demonstrably working within a common framework of objectives, priorities and timetables. One would thereby avoid what has often been the unsatisfactory outcome of past efforts, where a proliferation of forums brought confusion, delay, the diversion of energy and the postponement of effective action. It is also important that no interest be left unrepresented in the global dialogue – whether developed or developing country, market or centrally planned economy. The issues at stake are universal in scope, and require for their solution the full involvement of all countries in the international community.
3. **The gravity of the problem**
In our previous Report we stressed the urgent need for early

action, suggesting that the international community should make conscious efforts to shorten conventional timetables for implementing programmes of international co-operation. Since then, the information which has become available on the grave position of the non-oil developing countries underscores the need for immediate action. In this connection, the most pressing problem is that of the balance of payments, and the constraints this imposes on real development and the planning for such development, including the creation of employment in developing countries.

4. The developed countries have managed because of the resilience of their economies and the efficacy of their adjustment mechanisms substantially to overcome the recycling problem, and to go a considerable way towards reactivating their underlying potential for real growth and the creation of jobs. This has been materially assisted by the previously underestimated import capacity of the OPEC countries for goods and services produced by the developed world, and by economies in the use of oil. The burden of the balance of payments adjustment required by the international economic crisis has fallen upon the non-oil developing countries, who are ill-equipped to bear it.
5. The IMF's analysis of the situation indicates that the non-oil developing countries experienced a current account deficit of some \$35 billion in 1975; and the most hopeful forecasts are that in 1976 and 1977 the deficit is unlikely to fall below \$30 billion in each year. There has therefore been a radical shift from the position where the non-oil developing countries were usually incurring approximately a \$9 billion deficit, which was accommodated within existing international institutional arrangements, even though inadequate growth and development were being generated in the large majority of developing countries. The present outlook for a \$30 billion-plus deficit must be considered against the background that the full implications of this for the development prospects and the standard of living of many developing countries are only now beginning to be seen, and that institutional developments for providing the resources needed to fill this gap on appropriate terms, have not yet been fully examined, let alone set in place. So far, less than \$6 billion is likely to become available through institutions towards the required \$30 billion, which indicates the gap that remains to be filled by ODA and other support schemes.
6. Over the past two years the non-oil developing countries have

been able to rely, and have had to rely, predominantly upon short-term market borrowing, largely through Eurobanking channels, and devices such as suppliers' credits. In 1975, the net expansion of credit from private banks to them approached \$14 billion – a sum well in excess of the traditional annual deficit. This pattern of financing is naturally giving rise to an escalation in debt servicing payments. It does not therefore represent a durable solution, but one which merely creates difficulties for the future, and makes the development problems of the non-oil developing countries that much more intractable. Moreover, the revival of demand from developed economies for loanable funds, as they recover from recession, will tend to reduce the finance available to the developing countries.

7. There is no room for complacency. If the expected deficit cannot be financed, the developing countries will be forced to do without imports of goods and services vital not simply for their development but for the maintenance of even their present inadequate standard of living. The forecast deficit is itself posited on an inadequate rate of growth. A more desirable rate of growth would result in a much larger deficit. A smaller deficit could mean stagnation and in some cases perhaps even starvation.

Areas for corrective action

8. It seems to us that several things could be done quickly to redress the situation. First, a further look could be taken at the adequacy and suitability of the balance of payments support facilities available from the International Monetary Fund. Data for 1975 show that despite the difficult situation in which they were placed during that year, only a tiny handful of developing countries took advantage of Fund facilities beyond the first tranche. Moreover, it is clear that the improvements agreed upon by the Fifth Meeting of the Interim Committee of the Fund would have only a marginal effect on the present situation. In general, the results achieved in Kingston fell far short of expectations in providing additional financial resources for the developing countries, whether by way of compensatory financing, gold sales, or the creation of a link between SDRs and development finance.

Financial measures

9. In any event, the creation of financial facilities is one thing, their utilisation another. An examination of the role being played by the International Monetary Fund will show that over the years it has extended its activities and diversified

the facilities which can be availed of by members facing balance of payments difficulties. In particular, in the last two or three years the Fund has shown adaptability to changing circumstances. But the fact is that developing countries have been making little use of the Fund's facilities, even when many of them have had to face severe strains on their payments position. The terms and conditions under which member countries can borrow from the Fund under the various facilities and the fact that all borrowings are related to the quota holding of the member and not dependent on urgency or extent of need are largely responsible for this. We would, therefore, recommend that an immediate review be undertaken by the Fund in consultation with its members to assess the factors which have stood in the way of greater utilisation of Fund facilities by developing countries and to suggest specific amendments including discriminatory treatment in favour of least developed and most seriously affected (MSA) countries, which would make the Fund a more effective agency in meeting the emergent needs of developing countries.

10. It is of course understood that the balance of payments support facilities at present available are intended merely to provide a breathing space for countries to tackle disequilibria which might be structural in nature. Since the balance of payments problems of developing countries tend to be of this character, we see improved access to existing Fund facilities as only part of a larger package of measures for dealing with the basic problem. We therefore envisage a wider role for the Fund in, for example, extended compensatory financing, which we deal with later in this report.

11. The second component of the package should be an increase in ODA. International development requires of the developed countries only a marginal allocation of their resources to the developing countries in the form of ODA. The Interim Report estimated that the provision of net ODA to the amount of 1 per cent of GNP by 1980 would require an increased ODA contribution of only some 5 per cent of the amount by which they may reasonably be expected to grow richer between 1975 and 1980. It is a matter of considerable concern that over recent years, however, ODA as a percentage of GNP has declined. The developed countries would be demonstrating the commitment to international development which they reaffirmed at the Seventh Special Session, if they implemented the ODA target of 0.7 per cent of GNP immediately. We urge them to recognise that the amounts devoted to aid, even at higher levels, do not significantly affect their domestic prob-

lems, and that they should insulate their aid-giving efforts from the requirements of domestic economic management.

12. Beyond this, we urge that the international community take action on the following specific matters:
- (i) A large and immediate replenishment of the IDA;
 - (ii) Improving the borrowing capacity of the World Bank, and increasing the resources available to the regional development banks, so that at the very least they could all continue their present levels of lending in real terms;
 - (iii) The exploration of new arrangements, including mobilisation of the efforts of the centrally-planned economies, to supplement the contributions being made by existing international institutions towards the growing financial requirements of the developing countries.

13. A third area where immediate action can be envisaged is Debt Relief. We believe this subject to be of such importance that we are devoting a separate section of this Report to it, since it represents one of the areas where very quick assistance can be given to the developing countries. In this introduction, we wish merely to draw attention to the fact that the present debt problem is alarming both in its proportions and in its implications. If immediate action is not taken to deal with this problem it could well lead to the progressive breakdown of the private capital market, at least as far as many developing countries are concerned. Our hope is that longer term measures for strengthening the viability of the economies of the developing countries would provide the ultimate solution to the problem. However, in the short term, special measures are needed for providing relief especially to the most seriously affected and the least developed.

Non-financial measures

14. Fourthly, financial measures must be complemented by trade measures designed to safeguard and increase the export receipts of the developing countries. Commodity arrangements and access to markets are of the highest importance. Sufficient preparatory work has now been done by UNCTAD and other international agencies, as well as by governments, to permit of agreement on a comprehensive action programme. We dealt with the subject of commodity policy in our Interim Report, but we consider it of sufficient importance to warrant our further attention on this occasion.

15. Finally, no package of immediate measures would be complete without components directly designed to accelerate longer-run development and structural transformation in the developing countries. Only these latter processes can yield lasting solutions to the underlying problems which create the balance of payments difficulties now being experienced. We did not highlight the fundamental problem of unemployment in our Interim Report. But in the circumstances facing the developing countries, the level of employment represents a more meaningful indicator of development and structural change than the level of GNP per capita. To that extent, employment-oriented strategies, programmes and projects constitute a vital part of the thrust towards greater development in the Third World.
16. We see therefore an important part for policies aimed at deepening development in the key productive sectors, and at increasing their employment creating capacities. Thus, we gave considerable attention to food production in our Interim Report, and re-affirm our support for the programmes of action then proposed. On this occasion, we intend to address ourselves to the manufacturing sector, and in particular to policies and programmes for industrial co-operation. We do not, however, see food and agricultural development, on the one hand, and industrialisation, on the other, as separate, let alone antagonistic, forms of development. They must be pursued with parallel priority so as mutually to reinforce each other.
17. As we observed in our Interim Report, the solution of the problem of development rests largely upon the developing countries, who must make intensified efforts at self-reliance involving the effective use of local endowments and opportunities. However, if these efforts are to be effective and productive, the international economic environment must not confront them with insuperable obstacles. A new international economic order should provide the appropriate external economic environment, so that maximum scope can be given to exercising the initiative and resourcefulness which the developing countries clearly have, and which will generate true development of a kind to which the world as a whole is now committed.

2. Commodity arrangements

New developments

18. Commodity matters were discussed in considerable detail at the Ottawa meeting of the Group and our views are set out at some length in the Interim Report. There are however new developments which make continued attention to commodity problems unavoidable, especially in view of the importance of commodity earnings and the proper organisation of commodity markets for the economies of developing countries and progress towards a new international economic order.
19. The prices of the principal commodity exports of the developing countries (excluding fuel) have fallen sharply since the peak period of March-April 1974, and although prices rallied to some extent in the latter half of 1975, estimates by the UNCTAD Secretariat show a fall of 17 per cent in 1975. If these prices are deflated by the UN index of prices of manufactures, the real fall is estimated at 30 per cent; and a comparison of available data on the import prices of developing countries shows that this index greatly understates the real fall.
20. There is clearly an urgent need for early decisions on a comprehensive package of commodity policies.

The integrated programme

21. We expressed the view in our Interim Report that the integrated programme recommended by the Secretary-General of UNCTAD represents a major sustained and comprehensive attack on the commodity problem. We urged then the acceptance and implementation by the international community of a programme on these lines. It is now necessary to translate concepts into concrete action. Accordingly, we believe that no useful purpose can be served by further debate on the respective merits of the integrated programme versus the commodity-by-commodity approach. The distinction between these two approaches can be easily exaggerated, since the integrated programme itself provides for the negotiation of individual commodity arrangements. What is important now is to get

international negotiations going on as many commodities as possible, taking into account the elements of the integrated programme proposed by the Secretary-General of UNCTAD, and backed up by concrete arrangements for the necessary finance. We urge the international community to turn its attention to an action-oriented programme along these lines.

International buffer stocks

22. Ready access to funds for international stocking would greatly facilitate the establishment and effective functioning of commodity arrangements for which buffer stock operations are a suitable stabilisation mechanism. We noted in our Interim Report the review being undertaken by the World Bank and the IMF on buffer stock financing. Unfortunately, no scheme has yet emerged in spite of wide attention and agreement in the international community on the need for international buffer stock schemes.

23. We urge the World Bank and the IMF to adopt early and clear policies of support for direct lending to buffer stock schemes or indirect lending through a common financing scheme. In addition we recommend that the IMF Buffer Stock Facility should abolish the balance of payments criterion for providing loans to governments to meet their financial obligations to buffer stock schemes since we regard this as an inappropriate condition for this type of drawing, and that drawings under this Facility should be fully additional to those under the other facilities of the Fund.

Compensatory financing

24. Since the publication of the Interim Report, new proposals have been put forward to extend the scope of compensatory financing.

25. In that Report we saw compensatory financing as playing an important role in commodity stabilisation policy. In view of the comprehensive and immediate effect of a compensatory financing scheme, its special advantages in relation to commodities which are not easily amenable to price stabilisation arrangements, and the delays that are possible in negotiating a large programme of arrangements for individual commodities, we see compensatory financing as having an urgent role in the short run and a substantial role normally; but we would re-emphasise that compensatory financing should be complementary to price stabilisation arrangements.

26. We had recommended changes in the IMF Compensatory

Financing Facility. In December the Facility was revised. We welcome the liberalisation that has taken place, but we feel that the Facility is still inadequate to meet the expanding needs for compensatory financing. The extent to which export shortfalls of developing countries are met by the IMF Facility is still very small in relation to the present decline in real export earnings or to the balance of payments problems of these countries.

27. We have given close consideration to further improvements that are required in compensatory financing. We have already referred to limitations in the IMF framework in dealing with development needs and the special problems of particular groups of countries; but there are also dangers in duplicating functions, and we urge efforts to make rapid progress by building on the recent modest achievements rather than considering new institutional arrangements at this stage.
28. Although the Facility has only been recently revised, we see reform as a continuing process and note that the IMF has agreed to review the whole operation of the Facility when experience and developing circumstances make this desirable, and certain aspects in any case before the end of March 1977. The possibility of early changes also arises from the fact that the joint Bank/Fund Development Committee will be giving priority attention to the problems of unstable commodity prices and the stabilisation of export earnings. We recommend most strongly that every opportunity be utilised for considering improvements to the present Fund Facility.
29. The terms we recommend for urgent adoption are: methods of calculating shortfalls that would reflect adequately expected growth in real earnings; extending shortfalls to include where appropriate invisible earnings; compensation for the entire amount of a shortfall; the conversion of loans into grants or soft loans after a specified period; a high level of concessionality to the least developed and most affected countries; and repayments from the excess of export earnings over the norm. These conditions would only be available to the developing countries, and will not affect the access of other countries under the terms of the existing Facility.
30. If development efforts are not to be frustrated, developing countries must be able to plan on the expectation of stable growth in their export earnings. This requires not only full compensation for nominal shortfalls, but also measures to support the maintenance of real earnings. Accordingly, we

recommend that the quota limitations of the Fund Facility be eliminated, and the other restrictive conditions on access be relaxed.

31. We strongly support the introduction of special concessional measures into the Fund Facility in favour of the least developed and most seriously affected countries.

32. It seems probable that the funds required by a facility with the features we have recommended could be met from the normal resources of the IMF. Should this however not be the case, the IMF should be able to raise required additional funds by special arrangements, including the allocation of SDRs, for meeting the requirements of compensatory financing.

33. The detailed changes recommended are as follows:

(i) *Eligibility*

Drawings should be for shortfalls in total visible real export earnings, including in appropriate cases specified invisibles e.g. tourism. The shortfall would be calculated on the same basis as before December 1975 except that the maximum forecast estimate of earnings for the post-shortfall years would be raised from 10 per cent to 20 per cent over the value for the two pre-shortfall years. A country's shortfall in real export earnings should be calculated after adjustments are made for changes in the prices of its imports;

(ii) *Extent of Drawings*

Drawings should cover the shortfall in export earnings;

(iii) *Repayment*

For the least developed and MSA countries drawings should take the form of grants or IDA-type loans. Repayments for other countries should be made within a five-year period from the excess of export earnings over the norm for that year calculated on the basis of real earnings as in the case of shortfalls. Any balance outstanding at the end of this period should be converted into a grant or an IDA-type loan.

Net importing countries

34. We gave further consideration to the issue of the effect of the integrated programme proposed by the Secretary-General of UNCTAD on the net commodity importing countries. We reiterate the support we gave in the Interim Report to remedial compensatory financing arrangements, the granting of rebates,

and in appropriate cases concessionary sales from buffer-stocks. The improvements we have proposed with respect to the IMF Facility would to a considerable extent also accommodate net importing countries.

Market structure

35. In the case of many mineral and agricultural commodities exported by developing countries, there is a concentration of ownership or control in respect of distribution and marketing or in the various stages of processing. Several stages of the processing and marketing of such products are in the hands of a few large corporations which are wholly or mainly owned by nationals of developed countries.
36. There is a sizeable spread between the prices received by producers of the raw materials and those paid for the final products whether in unprocessed or processed form. The developing countries could secure a larger share of the proceeds through co-operation among themselves in negotiations with the companies involved, and by the establishment of their own transport and marketing facilities.
37. As far as processed products are concerned, a larger share for the developing countries would involve their undertaking more down-stream operations locally and greater participation by them in down-stream operations located abroad.
38. Much more information is needed on the marketing situation and on economic and technical feasibility, before specific policies can be devised to suit the special characteristics of each commodity. Some studies have been attempted by the UNCTAD Secretariat. We recommend that these studies should be continued and urge the companies concerned in the developed countries to co-operate fully.
39. The encouragement of down-stream operations locally, and the participation of developing countries in partnership ventures in these operations, could be helped by greater support for these activities by regional and international lending agencies; and the latter should adapt their policies to encourage greater local ownership and participation. The financing of national stocking could also help to improve producer returns. Local restrictive practices legislation, and international codes of conduct on transnationals and the transfer of technology, could assist in encouraging down-stream operations and in providing higher returns to developing producing countries, by the discouragement of restrictive transfer pricing and market

sharing arrangements and by promoting the transfer of technology.

40. It is often the case that the interests of the developing producing countries are similar to those of consumers in the developed countries. Governments in the latter should recognise this in the development of their legislation on restrictive business practices. This requires attention not only to pricing policies and market margins, but also to regulations on advertising and trade description.

41. Keeping in view the considerations stated above, we urge the international community to assist the developing countries to secure a larger share of markets, distribution and processing.

Investment in raw material production

42. A sustained increase in investment in the exploration for and production of non-renewable mineral resources is necessary if the present and future world demand for these materials is to be satisfied. A large proportion of this must be made in the developing countries. By far the greatest share of the supply produced by the developing countries is now required by the developed countries, but we wish to point out that the developing countries must include in their investment planning in these fields the satisfaction of both the demand from the developed countries and their own future development needs. The provision of investment funds for these countries must therefore have regard to both these needs.

43. We pointed out in our Interim Report that mining and extraction costs have been increasing because of both sharply rising prices of the capital equipment and other inputs purchased from the industrialised countries and the need to explore lower yielding grades and strata of mineral resources. Further, developing countries are now set firmly on a course of securing greater control over the ownership and exploitation of their natural resources, a process which we fully support. If the world is to assure itself of an adequate supply of essential mineral resources produced in the developing countries, it must have full regard to both these factors, and it is for this reason that we stress that new partnerships and arrangements between capital, technology and natural resources will be necessary.

44. In our view, the heart of the investment problem is the question of the price level and the price expectation for the output. It is highly unlikely, to say the least, that a durable solution can be

found for securing the required flow of investment in infrastructure and in the production and ancillary facilities unless pricing arrangements give the necessary assurance of continuing remunerative prices to the producers which provides them with confidence in the future. The commodity arrangements which we supported earlier are therefore crucial.

45. *The World Bank and Regional Banks:* We endorse the call made at the Seventh Special Session for the World Bank – and we include also the regional development banks – to be empowered and assisted to raise each year the additional funds required for investment in infrastructure and other facilities associated with new production of raw materials in the developing countries. We urge these institutions to adapt their policies to the new development strategies being employed and in particular to assist the governments of the developing countries in meeting their share in joint operations and in financing effective local participation in activities directly and indirectly related to mineral and other raw material production.
46. *The International Finance Corporation:* We strongly recommend that, parallel with the provision of an enlarged equity base for the International Finance Corporation, the charter of this agency should be amended to enable it to participate, through the provision of loans, equity and guarantees, in commercially oriented producing enterprises in the developing countries regardless of their pattern of ownership.
47. *The UN Agencies:* We see an important role for the UN agencies in supporting pre-feasibility studies and exploration work. We welcome the establishment of the UN Revolving Fund for Natural Resources and urge the developed countries and the OPEC countries to provide the very tiny fraction of their resources which this agency will require if it is to be an effective force in safeguarding future world supply.
48. We are convinced also that all multilateral technical assistance agencies could improve their effectiveness by structuring their activities so as to be able to assist the developing countries in exploring new mineral resources, and we urge that they take appropriate steps to undertake such functions on an enlarged scale.
49. We welcome the fact that progressive transnational enterprises are evolving new forms of partnership to operate in developing countries. These new forms, such as joint ventures with varying proportions of equity, service and management

contracts, and long-term purchase agreements involving financing, can provide an efficient vehicle for the continued supply of investment funds for raw material production in the developing countries. We urge both those developing countries which allow foreign investment in these sectors and the developed countries to support this evolution of productive capacity. In particular, we see the need for the developing countries to improve their negotiating and decision-making capabilities to avoid future friction and costly delays, and for the developed countries to continue to provide existing incentives and other forms of support and to adapt them to the changing conditions of partnership with the developing countries.

50. We believe that the centrally-planned economies, in support of their stated commitment to international development, should be expected to provide expertise, investment funds and other forms of support for the exploration and production of raw materials in the developing countries.

The International sea-bed

51. We share the view that the international sea-bed and ocean-floor will be an important source of essential raw materials in the future. We believe that the developing countries should receive a substantial share of the benefits to be derived from the exploitation of the international sea-bed and ocean-floor resources. We are of the view that the international organisation to be set up for managing the resources of the sea-bed and ocean-floor which is under consideration at UNCLOS III, should be provided with adequate and secure funds for discharging its functions.

3. External debt

The nature of the problem

52. In our Interim Report we drew attention to the serious burden which the external debt* outstanding at the end of 1973, estimated at about \$120 billion, has created on the continuing development of a number of developing countries. While the total debt has been growing for a number of years at an accelerated rate, its composition has also been changing, with a more rapid growth in private capital flows, particularly private bank credits, which has resulted in a more pronounced acceleration in debt service payments than in outstanding debt. In 1973, debt service payments by developing countries thus reduced by nearly half the gross transfer of financial resources to these countries.
53. More recent estimates indicate that these trends in the size and composition of external debt have been further accentuated. As we have already noted, the economic situation of non-oil developing countries has deteriorated markedly in the last two and a half years, thereby eroding seriously the base from which to service foreign debts. At the same time, widespread increases in current account deficits have led a number of developing countries to offset the deterioration in their balance of payments by borrowing significant amounts from private capital markets. As we have already observed, this acceleration of short-term borrowing has serious implications for the external financial position, continued credit-worthiness, and future development of these countries. Difficulties in servicing external debt have already become acute in some cases and may become more difficult for others in future, because of the necessity of financing large balance of payments deficits.
- ### **Categories of affected countries**
54. As developing countries make use in varying degrees of

*Not including private debts without public guarantee in the debtor countries. 1973 is the last year for which relatively comprehensive data, even under this partial definition, are available.

different types of borrowing, the extent and nature of the debt servicing problem differs considerably from country to country. Also, the adverse economic factors operating in more recent years affected some countries more than others. However, two categories of countries can be identified as having particularly serious debt servicing problems in the current situation. First, there are the very poor and the most seriously affected countries where the increases in their balance of payment deficits have been of such magnitude in relation to their economic strength, that they are facing acute problems in meeting their external debt obligations while at the same time attempting to maintain their development effort. These include some of the MSA countries which have been forced only recently by lack of alternatives to borrow in short and medium term private markets. It should be noted that lower income countries rely largely on official and multi-lateral sources of credit.

55. The second group consists of developing countries which have increasingly relied for some years, as mentioned above, on commercial borrowings to meet a significant portion of their balance of payments deficits, but now face serious debt servicing problems due to the increase in the size of deficits and the consequent accelerated borrowing in the last two and a half years. Their problem is that of finding additional resources to finance the larger deficits required to protect their development effort as well as to maintain their credit-worthiness in the market.

Need for urgency

56. To the extent that new mechanisms are established for effecting a larger transfer of resources to the developing countries on a continuing and less onerous basis, the debt problem would tend to diminish. We consider that, since several of the measures for a larger resource transfer now being examined will require much time before they can become effective, it is extremely important that specific and immediate steps be taken to provide debt relief. In order to assist the developing countries in dealing at least with the most pressing strains of debt servicing, we suggest the following proposals for urgent and speedy implementation.

Official debt

57. As an extension of the policy of some donor countries to provide ODA to the poorest countries only in the form of grants, we support the proposal that ODA related debt owed by these countries should be converted into grants. It should

be noted that if all future ODA to these countries were to be given in the form of grants, the conversion of past ODA loans into grants would be a once-for-all measure to provide much needed relief in the current critical economic situation of these countries.

Private Debt

58. We recommend that the IMF should provide in appropriate cases, at the request of and in consultation with the debtor country, credit facilities to meet debt servicing payments in respect of short term and medium term private debts in order to provide the increased balance of payments support required in the current situation and to protect the development programme of the country concerned. In view of the fact that many developing countries have not yet used a relatively large proportion of the credit facilities which are available from the IMF, we believe that the extension of additional IMF credit for this purpose under appropriately liberal conditions could be accommodated for the present within the existing IMF resources.

Institutional Arrangements

59. In view of the urgency of the problem, we also believe that, notwithstanding any consideration by the international community of more suitable machinery for debt rescheduling, the following improvements in the existing arrangements should be undertaken immediately. The IMF, either jointly with the IBRD or in consultation with it, should be clearly identified as responsible for convening a meeting of creditors at the request of the debtor country, in order to find solutions for the debt problems of the country concerned. The IBRD should use existing consortia and consultative groups, in addition to their customary purpose, to find solutions for debt problems. We wish also to emphasise that the international agencies, particularly the IBRD and IMF, should take steps, including appropriate assistance to debtor countries, to ensure that development needs are taken into account in all debt renegotiations.
60. We stress that the treatment of the debt servicing burden of developing countries in these ways should not reflect adversely on their creditworthiness. On the contrary, it should be seen as a timely contribution towards strengthening it. It should also be recognised that it is in the mutual interest of both debtors and creditors to avoid the danger of widespread defaults.

4. Industrial co-operation

61. We emphasised in our Interim Report that the accelerated development of manufacturing activities in the developing countries must be an essential part of a new international economic order. Manufacturing and processing activities are crucial to development not only because they are a pre-requisite for modernising agriculture and satisfying basic human needs but also because of their contribution to the creation of employment. The reality facing the world is that, over the next 25 years, 1,000 million more people will be added to the labour force in the developing countries. Only significant and sustained industrialisation can provide directly and indirectly the new jobs required. Our observations should be seen against the background of the Lima Declaration and Plan of Action on Industrial Development and Co-operation, as endorsed by the Seventh Special Session of the UN General Assembly, which called for an increase in the share of developing countries to reach at least 25 per cent of world industrial production by the year 2000, while making every endeavour to ensure that the industrial growth so achieved was distributed among the developing countries as evenly as possible.
62. We recognise that industrialisation is a complex process requiring changes in social attitudes and traditional methods of doing things; and that the developing countries are at different stages of growth and have varying capacities to absorb and sustain industrial growth. These diversities require a selective approach in formulating programmes for industrial co-operation not only between developing and industrialised countries but also among developing countries themselves. Indeed there is a great potential still untapped for industrial co-operation between developing countries particularly between the less industrialised developing countries and those with substantial manufacturing sectors.
63. It is clear to us that industrialisation on a significant scale is only possible if the political will exists in the developing and developed countries, including the central planned economies,

to search jointly for and provide solutions to problems which individual countries will meet in their efforts to industrialise. Given the political will, it should be possible to supplement inter-governmental co-operation by fully harnessing the resources of international institutions and private organisations. The objectives must be to strengthen the capability of the developing countries individually and collectively to create new jobs and incomes through diversifying the industrial base, and generally to assist these countries in installing the production and supporting facilities for sustained growth in manufacturing.

Developing countries

64. The developing countries bear the primary responsibility for industrialising their economies and laying the foundations for sustained self-reliant development and growth. They must establish priorities appropriate to their own circumstances, consistent with the satisfaction of basic needs, the deepening of the industrial structure and the optimisation of foreign exchange earnings, and specify the modalities by which they desire to achieve their goals. In particular they should:

- (i) Improve their machinery for mobilising internal and external resources for industrial development. This might also require the introduction of policies to influence consumption patterns;
- (ii) Develop their own indigenous capability through effective institutional mechanisms, including the establishment of training and research centres for the adaptation, development and diffusion of appropriate technology;
- (iii) Take positive steps to expand the markets available to them, both through aggressive export promotion and through active steps to promote regional and inter-regional integration, including the establishment of jointly owned industries.

Objectives of industrial co-operation

65. We recognise, however, that even with the best efforts to mobilise resources, these countries will encounter severe constraints. The international community will also need to be involved by way of properly structured bilateral and multi-lateral programmes designed to remove these constraints and sustain the momentum of growth and development in industry in the developing countries. In order to assist these countries to realise their industrial potential to a maximum, programmes of industrial co-operation should be designed with the following objectives:

- (i) To strengthen the capacity of the developing countries to identify and formulate their industrial programmes ;
- (ii) To facilitate the transfer of technology and management skills and the development of indigenous technology and skills in the developing countries ;
- (iii) To secure additional financing required for both direct investment and infrastructure related to industrial development ;
- (iv) To facilitate access to markets for the manufactured goods produced.

Industrialised countries

66. Industrialised countries have frequently expressed willingness to co-operate in facilitating the industrialisation of the developing countries. At the inter-governmental level, agreements such as the Lomé Convention or bilateral arrangements have provided a framework for industrial co-operation. Most industrialised countries also have a number of national programmes designed to encourage industrial development in the developing countries. But the impact of these efforts has so far been peripheral. Unless there is a considerable improvement and intensification they will not provide the required minimum critical support which the developing countries require in their efforts to develop an adequate industrial base. Industrialised countries have shown concern about the distribution of industry within their own countries, and the time has come when they should demonstrate greater determination for a more equitable distribution of the world's industrial capacity.

67. The governments of the industrialised countries can contribute to the objectives set out above both through the removal of existing restrictions and obstacles and by adopting positive new measures. As far as investment is concerned, what we have said above in relation to investment in raw material production is equally relevant here: indeed the arrangements envisaged in Section 2 for the development of raw materials are essentially one example of what we are proposing in this section. Additionally, we urge the governments of the industrialised countries to:

- (i) Remove speedily and effectively restrictions on the imports from the developing countries, whether in the form of tariff or of non-tariff barriers such as quantitative restrictions, "voluntary" restriction schemes and fiscal charges. This applies particularly, but not solely, to products resulting from the processing of developing countries' raw materials. The slow progress made in the

Multilateral Trade Negotiations is regrettable. It should not be the occasion or the cause for overlooking the special interests of the developing countries or delaying effective action to improve their access to markets of the industrialised countries;

- (ii) Accept, and provide for the consequences of, the fact that the relocation of some industries or parts of industries to developing countries is an essential, inevitable, continuous and desirable element in a new economic order, and one which is in the long term interest of developing and developed countries alike. To promote this objective, appropriate programmes of adjustment measures will be necessary and they should be devised and implemented.

68.

As well as refraining from obstructing this mutually beneficial process, industrialised countries should take positive steps which could make a significant impact on the pace of progress in the developing countries. Among other things they should:

- (i) Along with a review of their patent laws, support early implementation of schemes to improve the information system available to the developing countries including the establishment of data banks on technology and technical investigations;
- (ii) Expand the capacity of existing mechanisms and create new ones for industrial co-operation, and ensure that these institutions focus their activities principally on accelerating the industrialisation of the developing countries in a manner consistent with the plans and objectives of these countries. In this connection, we note that some countries have already established public enterprises to invest and to act as a catalyst for other investment in the developing countries. We urge the industrialised countries to review the adequacy of the mechanisms available to them, including those for investment insurance, export credits and guarantees, pre-investment studies, information facilities for potential investors and tax incentives, with a view to expanding and improving them;
- (iii) Re-examine their aid programmes and priorities to see how these can be re-adapted in order to have a greater impact. We reiterate our view that the way in which aid should be used by a developing country and the priorities employed in its disposal should be determined by the recipient country rather than attached to particular uses by the donor. Nevertheless, we wish to draw atten-

tion to the recommendations we made in the Interim Report that high priority should be given in aid programmes to the early establishment of training and research centres aimed at the indigenous development and adaptation of technology. We also urge that the terms and conditions of loans to developing countries for their imports of capital goods and equipment should be appropriate to their economic circumstances; such loans should also cover a portion of local costs to facilitate the adaptation of imported technology. In particular, we urge special and early action to support integration industries in the developing countries.

Centrally planned economies

69. The centrally planned economies exercise closer control over their markets and this gives them, in some respects, a relative advantage to assist the developing countries through allocating some of their industrial activities to these countries and at the same time assure them a market for the output. Some of the centrally planned economies are also well placed to provide a type of technology suited to the needs of the developing countries in certain industries. We recommend that bilateral arrangements between the centrally planned economies and developing countries should be used to harness these and other advantages which can contribute substantially to the goal of improving the industrial capability of the latter.

OPEC countries

70. The resources of the OPEC countries have enabled them to provide a part of the foreign exchange which the developing countries require for their development programmes. We urge them to continue to do this, utilising in the process existing and new financial institutions where the establishment of the latter will deepen co-operation between themselves and the developing countries. They are also in the process of transforming their own economic structures. We urge the OPEC countries to give maximum effect to the principle of complementary development with developing countries, as it can represent, in our view, the optimal way of recycling oil funds in the interests of the whole international community.

Transnational enterprises

71. We recognise that the activities of some transnational enterprises have caused suspicion and doubt in the developing countries. The size and character of these enterprises in relation to many national economies are a source of considerable uncertainty for developing countries in negotiations with them.

But we also recognise that transnational enterprises can have a positive role to play in the industrialisation process of the developing countries, because of their command over finance, technology and access to markets and their capacity to plan, establish and manage complex operations.

72. Against this background we recommend that more substantial efforts be made by the international community to assist the developing countries in their negotiations with transnational enterprises. Further, to enable the developing countries to avail themselves of the resources of the transnational enterprises in a manner consistent with their aspirations, we agree on the need for appropriate codes of conduct governing the activities of these enterprises and the trade in technology which they substantially control. We believe that the contribution of the transnational enterprises would be deeper and longer lasting if they undertook an appropriate share of their research and development activities in the host country, and employed and trained nationals and gave them access to training and research facilities in their central research and development operations. These would be important ways in which the corporations could support the activities of national scientific authorities in furthering their indigenous research and development efforts.
73. We urge UNCTAD IV and the Commission on Transnational Enterprises to inject a sense of urgency into the negotiation of appropriate codes.

International agencies

74. We believe that the capacity of the many existing international agencies whose activities have a bearing on the industrialisation of the developing countries would be materially assisted if they were rationalised. We urge that in the context of establishing UNIDO as a Specialised Agency, the opportunity should be seized to review the existing arrangements with a view to avoiding excessive duplication and overlapping of functions among and within international institutions. UNIDO must be constituted to be an action oriented agency providing direct support for the industrialisation efforts of the developing countries. Its support should include strengthening the capacity of the developing countries to industrialise; establishing or organising access to technology data banks to assist the developing countries to acquire technology suited to their needs; responding to requests from developing countries to bring together representatives of government and industry from the developed and developing countries for particular industrial schemes; and promoting industrial co-operation, *inter alia*, through preparing

models for bilateral agreement. We urge that the activities of UNIDO be decentralised to reach the individual developing countries, and that UNIDO establish regional consultative groups to monitor progress towards the target of industrial development accepted by the international community.

75. The international and regional financial agencies should increase their loans on terms and conditions which meet the circumstances of the individual developing countries, and should support financial and technical arrangements which would facilitate greater trade among developing countries. This would include the provision of refinancing facilities for export credits from one developing country to another and support for regional safety nets (mutual balance of payments support arrangements) introduced by developing countries. The capabilities of these institutions must therefore be enlarged and in this connection we reiterate our recommendation made in Section 2, that urgent action be taken to increase the capital of the World Bank; and to amend the charter of IFC and increase its resources to enable it to lend to industrial enterprises in the developing countries regardless of their form of ownership.

Bilateral arrangements

76. We see a need for specific bilateral agreements which will spell out the responsibilities and obligations of governments and industry and establish machinery and institutions for effective implementation. There is evidence that the industrialised and developing countries are prepared to enter into such bilateral agreements. The way ahead therefore lies in taking immediate action to bring about these agreements and define the commitments which countries should assume.

5. Concluding observations

77. If there is a single theme which runs through our recommendations it is that the need for action is so urgent that every effort must be made to promote it within existing institutions and arrangements rather than await the establishment of new ones. This will also give the international community the time to undertake the necessary reforms in existing institutions and arrangements. Indeed, we propose to give considerable attention in our final report to institutional questions, especially in the fields of trade and finance.
78. In regard to fundamental change itself, we see a need to include in our remaining work a thorough examination of evolving patterns of international economic relations, especially among the developing countries themselves. Apart from the mutual advantages which can flow from closer economic co-operation, an intensification of economic ties between developing countries would in many fields be an effective pre-condition for more satisfactory relations between developing and developed countries. Likewise, we would hope to examine more systematically than we have done up to now the development of relations between the developing countries and the centrally planned economies.
79. On the whole, the programmes of practical measures which we have so far proposed, must be seen as a pragmatic response to a grave and urgent situation rather than as a reflection of any basic attitudes about the character and pace of change. We remain persuaded by the view that a new international economic order if it is to bring real development to the developing countries cannot be achieved without basic institutional reforms.

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