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To: Members of the Executive Board

From: The Secretary

Subject: Twenty-Sixth Session of the UNCTAD Trade and Development Board

Attached, for the information of the Executive Directors, is a report by the Fund observer on the twenty-sixth session of the Trade and Development Board, held in Geneva from April 18-26, 1983.

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Department Heads

INTERNATIONAL MONETARY FUND

UNCTAD--Trade and Development Board

Twenty-Sixth Session

Report by the Fund Observer 1/

May 17, 1983

The twenty-sixth session of the Trade and Development Board was held from April 18-26, 1983. Mr. R. Hlavaty of Czechoslovakia was elected Chairman. The main items on the agenda were a review of arrangements concerning the debt problems of developing countries, and a review of UNCTAD's work in the fields of protectionism, structural adjustment, and multilateral trade negotiations. The Board also considered what arrangements should be made to review the implementation of the International Development Strategy (IDS) for the Third United Nations Development Decade, and heard reports on meetings of the main UNCTAD Committees during 1982. Mr. Richard Eglin of the Geneva Office attended as the Fund observer; this report summarizes the main points of the discussion.

1. Introductory statements

The Chairman opened the twenty-sixth session noting that this meeting was bound to influence the atmosphere and outcome of the Sixth Session of the United Nations Conference on Trade and Development (UNCTAD VI) to be held in Belgrade in June 1983. He stressed that the Board was meeting at a time when the international political and economic climate was deteriorating and that economic prospects for all countries were being jeopardized by the weakness of the global economic recovery, by the debt burden of many developing countries, by protectionist measures, and by the consequential decline in the volume of world trade. He said that the world economic crisis had affected the developing countries most severely, paralyzing their economic development and creating difficulties for the elaboration and implementation of their economic policies.

1/ Documents referred to in this report will be on file in the Secretary's Department.

The Secretary-General of UNCTAD, Mr. Gamani Corea, stated in his introductory statement that the agenda items concerned with protectionism and structural adjustment, the indebtedness of the developing countries, and the implementation of the IDS were of particular importance. He noted the concern of the international community over the stagnation of world trade and the growing tendency to bypass the rules of the international trade system under the pressure of recession, and he stressed the link between a recovery in world trade and in the world economy. On the question of debt he thought it important that the Board reach conclusions that had operational relevance to this major problem. As to the arrangements to be made in the review of the implementation of the IDS, he stated that the review would be a difficult exercise because in the three years that had already passed of the 10 years encompassed by the Strategy, all had been marked by crises for the developing countries. He stated that the duty of the Board was to underline these developments and he hoped that by 1984, when the IDS was scheduled to be reviewed by the UN General Assembly, the climate would have improved.

2. Review of arrangements concerning debt problems of developing countries

The UNCTAD representative introduced this item noting that the Board needed to review the implementation of Resolution 222 (XXI) and in particular of the recommendation included in this Resolution that international action in the area of debt renegotiation

(a) Should be expeditious and timely;

(b) Should enhance the development prospects of the debtor country, bearing in mind its socio-economic priorities and the internationally agreed objectives for the development of developing countries;

(c) Should aim at restoring the debtor country's capacity to service its debt in both the short term and the long term, and should reinforce the developing country's own efforts to strengthen its underlying balance-of-payments situation;

(d) Should protect the interests of debtors and creditors equitably in the context of international economic co-operation. 1/

He added that the major objective of this Resolution had been to place international action with regard to debt squarely in the context of development and long-term growth.

1/ Trade and Development Board Resolution 222 (XXI).

He stated that the Secretariat had compared the results of 15 multilateral debt renegotiations which had taken place since the adoption of Resolution 222 (XXI) in September 1980 with the outcome of debt renegotiations completed in the five years preceding its adoption, and had found the main characteristics of the arrangements, in particular the lengths of the consolidation and repayment periods including the grace period, to have been little different. 1/ He added that while one of the objectives of the Resolution had also been to encourage debtor countries to secure consideration of debt servicing problems at an earlier stage, the Secretariat had found that countries were still initiating the process of debt renegotiation only after substantial arrears had been accumulated or when balance of payments difficulties were already being experienced. The Secretariat had consequently focused attention on the procedures actually followed during a debt renegotiation, he said, and had found that in most instances, and particularly at the Paris Club meetings, the objective of placing a country's debt problems within the context of its development prospects had not been a priority consideration. Instead, he said, debt servicing difficulties had been considered essentially as short-run, balance of payments problems and the debtor country had been required first to reach agreement with the International Monetary Fund. Thus, he stated, the analysis of the country's problems and the shaping of an appropriate policy response had been guided more by current Fund practice than by the detailed features agreed by the Board, and, in the view of the Secretariat, modification of Fund conditionality so as to make it more relevant to the balance of payments problems currently facing developing countries would be of considerable assistance in the context of debt renegotiation as well as being desirable more generally. He noted that the Secretariat had addressed the question of Fund conditionality in considerable detail on several occasions, and in its view the structural nature of the balance of payments deficits facing developing countries required a policy response oriented more towards increasing output and expanding the volume of exports and less towards reducing aggregate demand and imports.

He outlined the Secretariat's suggestions on ways in which the intentions of the Board Resolution could be implemented more fully. He noted that 15 of the 21 developing countries that had renegotiated official debt between 1970 and 1983 were least developed countries. He suggested that for these countries meetings of donor groups, aid consortia or consultative groups could provide a suitable multilateral forum for an initial consideration of their debt problems. Such a forum, he said, in addition to eliciting undertakings as regards additional Official Development Assistance (ODA), could make recommendations

1/ UNCTAD document TD/B/945.

regarding the need and scope for debt rescheduling. He added that whether that rescheduling was undertaken by this forum or another, the subsequent policy action should take place in the context of the analysis undertaken by the donor group. For those countries whose levels of ODA receipts would not normally warrant the establishment of a donor group or consortium, but for which rescheduling of official or officially guaranteed export credits might be necessary, he said that the medium- or long-term dimension of a debt problem should be given greater prominence in the deliberations of the Paris Club. To this end, the Secretariat had suggested that the creditors agree to devote a special session of one or two days to consideration of this analysis well prior to the debt rescheduling itself, so that the results could be fully taken into account by governments and by the Fund.

On the question of debt to private banks, he noted that although this was not specifically mentioned in Resolution 222 (XXI) similar considerations arose as with official debt, and that more positive results could be achieved if renegotiation of private debt were to occur in a more orderly fashion and in a manner which was consonant with the Resolution. He briefly outlined the Secretariat's proposal that a tripartite commission be convened, comprising country representatives (e.g., representatives of the countries of residence of the commercial banks, the debtor country, as well as the Chairman of the Paris Club), the commercial banks and the international institutions normally participating as observers at the Paris Club, to express its views on the various elements that it would like to see reflected in an agreement with commercial banks.

The representative of Group B noted that the problems encountered by many developing countries had become urgent and serious. However, he stated that his Group felt that the arrangements for debt renegotiation had exhibited remarkable flexibility in very diverse debt situations since 1980 and on the whole had functioned satisfactorily for all parties concerned. He said that his Group was not in favor of changing existing procedures.

The representative of the United States stated that his Government recognized that a number of developing countries were experiencing payments difficulties and that the international financial system was undergoing severe strain. However, it believed that the situation was manageable and that there were a number of signs pointing to recovery in the world economy. He stressed recent developments which he considered would help stabilize the international financial system and support economic recovery such as a continuation of the fall in interest rates and the agreement on increased IMF resources to support effective adjustment programs. He noted that since the adoption of Board Resolution 222 (XXI), 14 countries had had their debts, amounting to some

US$5 billion in arrears and scheduled debt service payments, expeditiously rescheduled through Paris Club meetings. He added that in each case the negotiations had been completed within two days and that although five of these countries had had successive reschedulings, this had primarily been due to worsening world economic conditions and inadequate adjustment efforts on the part of the debtor countries involved. In general, his Government felt that existing mechanisms had proved effective and flexible and were consistent with the full implementation of Resolution 222 (XXI).

With respect to the Secretariat's proposals, he stated that in his view debt rescheduling should be considered on a case-by-case basis and that there was no need for new or modified arrangements which could only make existing mechanisms more cumbersome and rigid. For the same reason he said he did not believe the tripartite commission proposed by the Secretariat for dealing with debt by the private banks would facilitate discussion or otherwise be helpful.

Noting the comment in the Secretariat's report that too much emphasis had been placed on short-term adjustment under the guidance of the IMF, he pointed out that the Fund had taken steps in the past few years to identify adjustment measures which would assist a country in moving towards a sustainable medium-term balance of payments position, working closely with the World Bank to develop appropriate medium- and long-term strategies and to design consistent adjustment programs. He stated that he shared the concern that debtor countries should address their debt problems at an earlier stage but he pointed out that every member of the Fund held regular consultations during which it had an opportunity to identify its economic problems and to discuss appropriate measures. In his view, he said, the delays in approaching the Fund and the lengthy negotiations that had been mentioned in the Secretariat's report usually reflected reluctance to undertake the necessary adjustment measures, and because adjustment was delayed debtor countries were subsequently compelled to undertake even sharper corrective measures. He stated that he understood that the Fund intended to intensify its efforts to review members' debt situations in the course of regular consultations and that the Executive Directors of the Fund had recently approved measures to improve the Fund's effectiveness in the debt area, including the provision of more technical assistance and the improvement of available debt statistics. He noted also that it was his understanding that the Fund staff was in the process of updating a report on debt relief and renegotiations for consideration by the Executive Directors.

The representative of the Federal Republic of Germany, speaking on behalf of the European Economic Community, said that the Community felt that the Paris Club had proved to be an efficient and viable instrument for alleviating the debt service burden of developing countries. He emphasized that Board Resolution 222 (XXI) did not call for a modification of the Paris Club mechanism as a forum for the rescheduling of officially guaranteed debt. He stated that the Community felt strongly that debt problems could be adequately dealt with only on a case-by-case basis, whether these problems were of a short-term, long-term, or structural nature. He noted that with one recent exception, developing countries had generally been hesitant to make use of the existing facilities provided by donor groups, the IMF, the World Bank and UNCTAD and he encouraged more countries to make use of these facilities before their debt problems became so bad as to necessitate sharp adjustment measures. He added that while the Community felt that there was scope for improving the flow of information with private banks, it did not support the Secretariat's proposal for establishing a tripartite commission.

The representative of the Group of 77 noted that Board Resolution 222 (XXI) established a clear link between financial assistance for development and the external public debt of developing countries. He stressed that the debt problems of developing countries were of great sensitivity and he requested that the Secretariat take this into account in preparing its documentation. He stated that the Group of 77 felt that Resolution 222 (XXI) had been implemented unsatisfactorily so far. He said that the Group of 77 was convinced that a complete solution to the debt problems of developing countries required the comprehensive reform of the international monetary system, and in particular the IMF, which should enhance its financing role, expand its credit operations, and allow the developing countries a greater share in its management. He added that the Group of 77 and the Group of 24 on International Monetary Affairs had identified the elements for the restructuring of the international monetary system on many occasions, and full implementation of Resolution 222 (XXI) was one of the important elements. As a result of the failure to implement adequately that Resolution, he said, the Group of 77 proposed that a framework should be established with respect to official debt through which interested developing countries could convene ad hoc meetings of official bilateral and multilateral creditors as well as relevant private creditors to consider the medium-term development objectives and address the balance of payments and the development finance needs of the debtor country.

The Board decided to consider further the question of the indebtedness of the developing countries at its twenty-seventh session.

3. Protectionism and structural adjustment

The UNCTAD representative introduced the Secretariat papers on protectionism and structural adjustment and stated that recovery of international trade and economic growth hinged on the reversal of protectionism. 1/ He pointed out that slow economic growth and structural rigidities had been primarily responsible for the intensification of protectionism in recent years, and he stated that short-term political exigencies had led to beggar-thy-neighbor policies and a crisis of confidence in the world trading system. He noted the negative impact of protectionism in turning investment away from internationally competitive industries.

On the question of increasing transparency in the adoption and implementation of trade-related measures, he said that it was useful to draw a distinction between transparency at the national level and transparency at the international level. At the national level, he said, transparency could reduce the use of protective measures to deal with the problems of uncompetitive industries. He said that increased transparency in governmental procedures dealing with industries' requests for assistance would enhance public awareness of the motivations, efficiency costs, and income distribution effects of different measures and thereby forge a powerful anti-protection interest group to counter vocal producers' groups. The Secretariat proposal, he said, was to set up a public inquiry process in which any request for protection from foreign competition would be evaluated by an impartial national body taking into account the interests of all affected parties. 2/ He added that increased transparency through a national public inquiry process needed to be supplemented by the establishment of internationally agreed objective criteria regarding government assistance to industry. As far as international transparency was concerned, he noted that the Secretariat's compilation of a comprehensive inventory of non-tariff barriers to trade was at a very advanced stage and the Secretariat would welcome the Board's guidance on how this information could best be used. 3/

Turning to protectionism and structural adjustment in agriculture, the UNCTAD representative stressed the dependence of developing countries on agricultural products and noted that tariffs on agricultural products in developed economies were often higher than those on other products since neither the Kennedy Round nor the Tokyo Round had dealt

1/ UNCTAD documents TD/B/939, 940, 941, and 942.
2/ UNCTAD document TD/B/942.
3/ UNCTAD document TD/B/939.

satisfactorily with trade liberalization in this area. He noted that there was an extensive and extremely complex system of controls limiting foreign competition and supporting domestic prices at artificially high levels in the developed economies, and he stated the Secretariat's view that these controls involved immense costs. The Secretariat's proposals, he said, were an immediate, special reduction of barriers to trade in agriculture and processed commodities, and the formulation of multilaterally agreed principles for international trade in agriculture. He stated that the Secretariat felt that among the most important issues which should be examined were the instability of international agricultural trade, prices, and supplies, the displacement of traditional suppliers through the export of subsidized overproduction of less efficient countries and appropriate procedures and compensation for injured parties, and the consumer protection and national security aspects of agricultural policies.

On the issue of international trade in services, the UNCTAD representative noted the quantitatively significant role of the service sector in development and proposed that the Board consider five areas of particular importance. 1/ First, he said, the Board should identify those activities which should be contained under the rubric of "services" and second, it should consider the need for improved data availability on protection, trade and employment in services. Third, he believed the Board should examine the determinants of competitiveness in the service industries and the extent to which they differed from those of goods industries. Fourth, he stated that it was important that the Board recognized the investment dimension of trade in services, and that since transactions through foreign subsidiaries were the manner in which many services enter foreign markets, the Board should examine the regulations affecting transnational corporations. Fifth, he recommended that the Board address the question of what was the basis of policies that affect trade in services, including national security, consumer protection, and development considerations. He added that an understanding of the reasons underlying the reluctance of a number of countries to discuss service matters in the framework of the GATT would greatly assist the Board in its deliberations. In this respect, he said, he believed that a number of developing countries were unwilling to consider trade in services within the GATT when so many of their long-standing problems had yet to be resolved and the GATT code of conduct was not working satisfactorily for international trade in goods.

The representative of the Group of 77 reviewed the factors underlying the growth of protectionism, noting that the desire to prevent market disruption was an important factor for the developed countries. He urged the developed countries to institute policies to induce greater

1/ UNCTAD document TD/B/941.

structural adjustment rather than resort increasingly to protectionist measures, as well as proper fiscal and monetary policies to guide investment in the most competitive industries. He stated that he could not accept arguments that structural adjustment policies had little relevance in developed countries, and in his view the critical factor was for these countries to take the political decision to have longer-term horizons instead of adopting short-term solutions in response to the demands of certain industrial sectors. He also summarized the harmful effects of protectionist measures on developing countries, and the link between trade, development, and finance. He suggested that a work program should be established to study those sectors in which developed countries had resorted to repeated and prolonged protectionist measures and examine what steps could be taken to eliminate these measures.

The representative of Brazil said that the Secretariat documentation confirmed that many of the protectionist measures affecting developing countries were contrary to the existing rules of trade. He noted in particular that the subsidization of agricultural exports from the developed countries undermined the developing countries' exports. On the question of trade in services, he noted that the deficit in this trade for developing countries was enormous and that it was essential for UNCTAD to find ways of curbing this deficit. The representative of Pakistan also lent his support to further UNCTAD study of trade in agricultural commodities.

The representative of Group B noted that his Group agreed that developing countries had been hit particularly hard by the current world recession and that interdependence meant that full recovery of the international economy could not be said to have occurred until developing as well as developed countries were participating in the benefits of the recovery. He stated that his Group had some reservations about the Secretariat's papers on protectionism and structural adjustment, specifically concerning the relative weight that should be given to protectionism in explaining the current economic recession. He added that his Group questioned the Secretariat's proposition that structural rigidities in the developed countries had increased and that present efforts to address the problems of structural adjustment and protectionism were inadequate. In the view of his Group, he said, tariff liberalization resulting from the recent Multilateral Trade Negotiations, the Codes on nontariff trade barriers adopted at these Negotiations, and action taken at the GATT Ministerial Meeting in November 1982 added up to substantial progress and cooperation among countries.

The representative of the Federal Republic of Germany, speaking on behalf of the European Economic Community, stated that the Community was concerned by the low level of economic activity and the growth of protectionist pressures. The Community, he said, was the most open trading entity in the world where average tariff rates were the lowest and the most frequently bound, and the Community was following a policy of open markets for the developing countries which had not been modified despite the depth of the current world economic recession. Drawing attention to the high level of unemployment in the EEC, he noted that one million jobs had been eliminated in the textile sector between 1973 and 1983 and substantial structural adjustment had taken place. He added that despite a growth of demand of only one per cent per annum since 1976, imports of textiles from developing countries had increased from US$4 billion to US$8 billion. He also cited the case of the steel industry as an illustration that structural adjustment in the Community was a continuous process.

The representative of Japan stated that in his view there were three essential features to be taken into account. These were, he said, that high priority should be given to the continued observance of the standstill principle on protectionist measures and to the liberalization of international trade, that all countries should adopt policies to encourage structural adjustment, and that it was essential to secure transparency in the implementation of governments' industrial and trade policies. Finally, he noted that his delegation found it difficult to accept a number of the proposals put forward by the UNCTAD secretariat.

The representative of New Zealand commented briefly on the question of trade in agriculture, and said that the Secretariat's analysis offered a well-reasoned basis for integrating agricultural trade into the normal rules for international trade. The representative of Australia endorsed the statement by the representative of New Zealand, and added some comments on Australian experience with structural adjustment. He stated that the objective of improved transparency in the international trading system should be strongly supported, and he urged other delegations to support further study in UNCTAD and the GATT of international trade in services.

The representative of the United States stressed the need to resist protectionist pressures and noted that the United States endorsed the need for transparency in trade relations. With regard to the documentation and discussion on services, he outlined the progress that had been made in the GATT on this subject and stated that his delegation was not prepared to endorse further studies by UNCTAD on services until there was a better understanding of how the question of services was to be addressed internationally.

The representative of Sweden, speaking on behalf of the Nordic countries, associated these countries with previous statements urging resistance to protectionism and greater transparency in international trade.

The representative of Group D deplored the increasing use of discriminatory measures in trade on noneconomic grounds against the Eastern European countries, and considered that UNCTAD could play an important role in devising a mechanism to guarantee the observance by all countries of the established principles of international economic relations.

4. Multilateral Trade Negotiations

The Board considered a draft resolution by Gabon on behalf of the Group of 77 which had been submitted originally at the twenty-third session of the Board calling upon the Board to conduct an annual review of developments in the international trading system. The UNCTAD representative introduced two background notes prepared by the Secretariat concerning the results of the Ministerial Meeting of the GATT and general developments in the international trading system. 1/ He stated that while the work program of the GATT meeting had addressed some of the problems in international trade relations, it had failed to extract a commitment from the CONTRACTING PARTIES to dismantle trade measures inconsistent with their obligations under the General Agreement. In the Secretariat's view, he said, this constituted a failure to reverse the trend towards managed trade and increasing bilateralism. He suggested that establishing procedures for the review of developments in the international trading system by the UNCTAD secretariat could help to prevent the erosion or distortion of multilateral trading disciplines. He envisaged that the review could be conducted at two levels, one addressing current developments in international trade relations for the trading system as a whole, and the second addressing questions of a more general nature regarding the principles and policies guiding international trade relations.

The representative of the Group of 77 noted that it was difficult to analyze international trade problems in isolation from the international economy as a whole. His Group, he said, proposed that the draft resolution be referred to the Board at its twenty-eighth session, taking into account developments at UNCTAD VI.

1/ UNCTAD documents TD/B/913, and Corr.1, and Add.1, and TD/B/948.

The representative of Group D expressed his Group's support for the draft resolution and for the proposal of the Group of 77. His Group considered that the erosion of the basic principles of international trade and, in particular, the unconditional most-favored-nation principle, was a major problem facing the smaller trading countries. He stated that the socialist countries in particular were subject to discriminatory quantitative restrictions and other unilateral restrictive trade actions introduced for purely political reasons. He added that any solutions to trade problems had to be based on unconditional most-favored-nation treatment and nondiscrimination, irrespective of whether participants had different economic or social systems or levels of economic development.

The representatives of Chile and China endorsed the draft resolution and the proposal of the representative of the Group of 77. The representative of Group B stated that his Group also could accept the draft decision proposed by the Group of 77. Accordingly, the Board decided to revert to the draft resolution again at its twenty-eighth session.

5. Review of the International Development Strategy

The Board considered a note by the UNCTAD secretariat proposing that the Board establish an intergovernmental group of officials to assess the results achieved in applying the IDS as the policy framework in the formulation of the UNCTAD program of work and the medium-term plan, and to submit a report to the Board at its twenty-eighth session. 1/ Discussion on this item was brief. The representative of Mexico felt that establishing such a group involved unnecessary duplication. However, the representative of Group B and the representative of Somalia supported the establishment of such a group. As a result, the Board decided to establish an open-ended High Level Intergovernmental Group which will meet before February 1984 and submit its report to a special session of the Trade and Development Board to be held during the period allocated to the twenty-eighth regular session of the Board.

6. Other matters

The Board heard reports from the Chairmen of the Committees on Commodities, Manufactures, Invisibles and Financing Related to Trade, and the Transfer of Technology, from the Chairman of the Intergovernmental Preparatory Group on Conditions for Registration of Ships, and from the Chairman of the Second Meeting of Multilateral and Bilateral Financial and Technical Assistance Institutions with Representatives of the Least Developed Countries.

1/ UNCTAD document TD/B/L.651.

The Chairman of the Committee on Commodities noted that the Committee had advocated that the Common Fund should come into operation as soon as possible. He stated that the discussion on a complementary facility for commodity-related shortfalls had revealed general agreement on the serious nature of the problem of shortfalls, but that divergent views remained as to the forum in which this matter should be considered. The Chairman of the Committee on Manufactures recalled that while the results of the tenth session of the Committee had been described as "meager" by various Groups, they nevertheless represented a start in tackling issues of concern.

The Chairman of the Committee on Invisibles and Financing Related to Trade reported that at its tenth session the Committee had decided to request the Trade and Development Board to make appropriate arrangements for the further consideration of an international Export Credit Guarantee Facility (ECGF). The representative of Group B recalled his Group's basic reservations about the ECGF and stated that any decision regarding further consideration of an ECGF would not constitute a decision in principle by the Board in favor of the eventual establishment of such a facility. The Board decided to remit consideration of this item to UNCTAD VI.

The Chairman of the Second Meeting of Multilateral and Bilateral Financial and Technical Assistance Institutions with Representatives of the Least Developed Countries reported that the Meeting had carried out a general review of the requirements and progress of the least developed countries and had also reviewed progress in the implementation of the Substantial New Program of Action (SNPA). He noted that the Meeting had agreed that aid practices and management should be simpler, more effective and more responsive to the needs of the least developed countries. The representative of the Group of 77 stated that although no specific commitments had been made at the Meeting, he hoped that the discussions would guide donor countries and institutions in channeling assistance towards the least developed countries in accordance with the SNPA. The representatives of Bangladesh, the Central African Republic, China, Ethiopia, Haiti, Nepal, and Somalia endorsed the comments by the representative of the Group of 77 and regretted that little progress had been made in achieving the objectives of the SNPA. The representative of Haiti added that aid to his country was insufficient to meet the objectives of the economic plan for 1981-86. He drew attention to the magnitude of his country's external debt, and called for a total or partial cancellation of the service of this debt.

The Board took note of the reports of these various Committees.