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To : Members of the Executive Board

From : The Secretary

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

Attached, for the information of Executive Directors, is a report by the Fund Observers on the twenty-seventh session of the UNCTAD Trade and Development Board, held in Geneva during October 3-20, 1983.

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INTERNATIONAL MONETARY FUND

UNCTAD--Trade and Development Board

Twenty-Seventh Session

Report by the Fund Observers 1/

November 21, 1983

1. Introduction and summary

The UNCTAD Trade and Development Board (TDB) held its twenty-seventh session in Geneva during October 3-20, 1983 under the chairmanship of Ambassador A.S. Osman of Somalia. Most of the discussion centered on assessing the results of UNCTAD VI and the world economic situation. Discussion of the specific issues remitted to the Board by other bodies of the UNCTAD permanent machinery or by the Belgrade Conference yielded only limited results. The Board adopted a revised calendar of meetings for the remainder of 1983 and for 1984, a resolution on trade relations between countries having different economic and social systems, and a resolution on economic cooperation among developing countries (ECDC). This latter resolution, however, was approved by a vote taken in the absence of Group B which strongly objected to this extraordinary procedure at the final plenary meeting. UNCTAD's work program on protectionism and structural adjustment, and the establishment of a possible Export Credit Guarantee Facility (ECGF) were remitted to the twenty-eighth session of the Board. A possible review of existing arrangements among developed countries on export credits was raised by the Group of 77 but Group B refused to discuss it in the Board or in any other UNCTAD fora. Messrs. Carlos Sanson, Jack Barnouin, and Richard Eglin of the Geneva Office attended as the Fund observers; this report summarizes the main points of the discussion.

2. Statement of the UNCTAD Secretary-General

In opening the session the Secretary-General of UNCTAD made an assessment of the outcome of UNCTAD VI. In his view, the Conference had succeeded in recognizing the mutual links between economic recovery in developed countries and resumption of growth in developing countries; unfortunately, in the discussions, this "new interdependence" had gradually receded into the background. As a

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

result, the Conference had failed to adopt the program suggested by the Secretariat for the acceleration of recovery and the reactivation of development. While a historical opportunity had thus been lost, UNCTAD VI, he stressed, had succeeded in reaching consensus on a large number of issues; these decisions certainly might provide building blocks for developing a new consensus on the working of the world economy.

Turning to the current world economic situation, the Secretary-General said that if the economic recovery which had begun in the United States were extended to Europe, it might result in a revival of activity in developing countries through improved commodity prices and an increased demand for these countries' products. However, it was doubtful whether the recovery would endure as long as interest rates remained unduly high and exchange rates unstable. Recent forecasts regarding the possibility of rapid improvements in the economic situation of the developing countries might prove to be wrong; also, the recent reduction in the current account deficit of the non-oil developing countries did not auger well for the future because it had been achieved through a large cut-back in imports which in turn had adversely affected the levels of investment and domestic activity in these countries. The political and social costs of such adverse developments might be enormous, and he reminded the Board that following the 1930 Depression there had been no less than 50 revolutions in Latin America and that political and social upheaval had gripped other parts of the world. The continuation of such retrenchment in the developing countries could lead to similar far-reaching political and social changes.

The Secretary-General stated that the work program of UNCTAD should focus on a number of basic issues in the fields of money and finance, world trade, and commodities. UNCTAD should continue to contribute to an understanding of the functioning of the international monetary system, the elements needed for its reform, and the role that a larger flow of resources for development could play in a reformed system. On trade, he stressed the need for UNCTAD to continue examining in depth issues such as protectionism, structural adjustment, safeguards, preferential treatment of developing countries, and the evolution of the institutional framework. On commodities, UNCTAD should continue to work towards the implementation of the Integrated Programme for Commodities (IPC), and pursue questions such as earnings stabilization, and increased participation by developing countries in processing, distribution, and marketing.

3. General debate

The plenary debate focused on two major topics, namely an evaluation of the results of UNCTAD VI, and an assessment of the current world economic situation.

a. Evaluation of the results of UNCTAD VI

The spokesman for the Group of 77 stated that although the package of resolutions adopted at Belgrade fell considerably short of expectations, his Group had accepted it in a spirit of international cooperation. The representative of Mexico said that the results of UNCTAD VI, albeit important, were insufficient because the Conference had failed to adopt the Buenos Aires program of action. The representatives of Iraq, Romania, and Sri Lanka expressed strong dissatisfaction with the meagre results of UNCTAD VI which they attributed to the lack of political will and the intransigent attitude of some major developed countries.

The spokesman for Group B said he did not share the negative views expressed on the results of UNCTAD VI. While the Conference had failed to satisfy fully any regional group, valuable progress had been made as evidenced by the consensus resolutions adopted on virtually every item of the agenda. UNCTAD VI should be seen as a building block in the pursuit of a wide-ranging North-South dialogue aiming at the improvement of the international environment. His Group intended to seek follow-up action. Similar views were expressed by most of the developed country delegations (Austria, the European Communities, Finland, Japan, New Zealand, Sweden, Switzerland). However, the representative of Norway stated that the results of UNCTAD VI could not be considered satisfactory because important proposals tabled by the Group of 77 had not been appropriately dealt with.

The spokesman for Group D stated that he generally agreed with the Secretary-General's evaluation of UNCTAD VI. Among the achievements of the Conference, he mentioned the report of the Working Group on Agenda Item 8 (world economic situation) which clearly recognized that the unprecedented difficulties encountered by developing countries were caused by the crisis of the world capitalist system, increasing protectionism, and greater trade discrimination. Positive results of the Conference were "the recommendation to strengthen mutual confidence in international economic relations; the attempt to counteract growing protectionist tendencies; the condemnation of methods of economic coercion; the confirmation of the principles of most-favoured-nation treatment and nondiscrimination in trade; and the adoption of a resolution on assistance to national liberation movements." At the same time, he regretted that the Conference had not been able to endorse several far-reaching proposals of the Group of 77 included in the Buenos Aires Platform.

The representative of China regretted that the coordinated measures proposed by the Group of 77 had not received a positive response at UNCTAD VI. This reflected the lack of political will on the part of major developed countries to solve the urgent problems of developing countries.

b. Assessment of the world economic situation

The representative of the secretariat stated that developing countries were currently making strenuous efforts to reduce their external current account deficit through a sharp compression of imports. In certain countries, the adjustment had been carried to the point where current account surpluses had been generated; in these countries, the consequence had been that domestic investment was constrained to levels lower than those made possible by domestic savings. This kind of balance of payments adjustment was undesirable, because it forced the developing countries to limit their economic growth "below the level necessary for the future wellbeing of their peoples." The real problem, therefore, was how to secure the financial viability of developing countries while stimulating a resumption of the development process.

The solution suggested by the secretariat was to make maximum use of existing financial institutions for channeling "substantially greater resources to the developing countries." Unfortunately, the deliberations and decisions at the recent Annual Meetings of the IMF and the World Bank clearly showed that no significant expansion of official financial flows to the developing countries was in prospect. In this connection, the Interim Committee decision to reduce access to Fund resources in terms of proportion to quotas "would, under normal circumstances, result for most developing countries in levels of access in absolute terms, after the general quota increase, that would be lower than, or at best roughly unchanged from, present limits." He also regretted that no consensus had emerged on a further allocation of SDRs and that a major contributor to IDA was currently seeking a reduction of IDA lending in nominal terms, which implied a substantial drop of such lending in real terms. Finally, he stressed that the outlook for developing countries over the next 12 months remained extremely grim, and that financial management of these countries was likely to be dominated by debt rescheduling.

The spokesman for the Group of 77 complained that the major developed countries at Belgrade had recognized that recovery in the developed countries was not a sufficient condition for revival of the economies of the developing countries, but had failed to endorse the program of immediate measures proposed by the Group of 77. At the same time, he went on to say, the developing countries "were nevertheless being asked to pursue further their adjustment efforts, which would subject the underprivileged sectors of their society to the ruthlessness of market forces." Under such circumstances, he believed that the best policy for the developing countries was "to promote self-reliance and thereby to insulate themselves from the vicissitudes of the external environment."

Debt problems had recently intensified and now embraced most members of the Group of 77, he noted. Total debt outstanding of the developing countries, including short-term debt, was likely to exceed \$700 billion at the end of 1983, and debt servicing was currently absorbing 29 percent of these countries' export earnings as against 20 percent during the late 1970s. This had led a growing number of countries to accumulate payments

arrears and to negotiate rescheduling arrangements, which provided only temporary relief because of high interest charges and short repayment periods. Rescheduling arrangements should thus be made more consistent with the guidelines contained in TDB Resolution 222, and the guidelines should be improved. In this connection, he recalled, the Group of 77 had put forward certain suggestions in the Buenos Aires Platform for renegotiating official and private debt, including a recommendation that the renegotiation of the official debt of low-income countries should be carried out in donor group meetings other than the Paris Club, and that renegotiations related to commercial borrowing should be considered in a new institutional framework involving governments, commercial banks, and multilateral institutions such as UNCTAD.

The representative of Mexico stated that many developing countries had adopted wide-ranging adjustment programs which had already had a positive impact on their current account balances, and that therefore it was now up to the rest of the international community to take supporting measures. In this context, he called on the developed countries to halt protectionism, to reduce or eliminate quantitative restrictions, and to improve the Generalized System of Preferences. The representative of Bangladesh said that the only rational solution to external debt difficulties for the least developed countries was a substantial increase in ODA on highly concessional terms, noting that in 1982/83 Fund assistance to his country had been almost entirely offset by repurchases and payments of service charges to the Fund. The representative of Afghanistan criticized financial institutions for denying credit to his country as a result of pressure from developed countries.

The spokesman for Group B stressed that economic recovery had begun in several industrialized countries, notably in North America. While many developing countries were still in a very difficult situation, his Group felt the prospects for a sustainable worldwide recovery were better than they had been for several years, and that the strategy for dealing with international debt problems had so far proved largely effective, even though greater effort was required in some areas; he reiterated his constituents' commitment to resist protectionist pressures and "to diminish the number of individual protectionist measures."

The representative of the United States said that noninflationary growth had resumed in his country and in other industrial countries in 1983, and was expected to gather further momentum in 1984. This should have a positive impact on the development prospects of developing countries, as trade was a powerful means for transmitting growth to the South. Serious problems were posed by continued high interest rates, increased protectionism, and the large debt burden of several developing countries. His authorities were mindful of the adverse effects of high real interest rates on all countries and on potential borrowers in capital markets, but any attempt to reduce interest rates quickly by inappropriate policy responses would simply rekindle inflation and lead again to economic decline. They were also committed "to halt protectionism and, as recovery proceeded, to begin the process of reversal."

However, success in countering the threat of protectionism required that all governments honor their pledges on standstill and rollback, and that developing countries join in the effort to promote trade liberalization. Finally, regarding the debt problems of developing countries, borrowers should continue their strenuous and laudable adjustment efforts, so that they could compete in world markets and that their access to sufficient external financial resources should be assured. This latter requirement implied that the Fund be provided with the resources it needed under the Eighth General Review of Quotas and that commercial banks continued to make new funds available to creditworthy countries. His Government was working strenuously toward the former objective, and believed that the latter would be achieved "for countries who showed an understanding of, and a respect for, appropriate economic policies."

The spokesman for the European Communities said that, while his constituents welcomed the signs of an upturn in some of the major industrial countries, they were concerned by continued high-level unemployment, sluggishness of investment, huge budgetary deficits, high interest rates, and currency instability. To deal with these problems, the international community should, as a matter of priority, address pending issues in the interrelated areas of commodities, trade, and money and finance, with a view to achieving steady noninflationary expansion in the world economy and to accelerating the growth process of the developing countries. In this context, he reiterated his constituents' support for the Common Fund and their attachment to an open world trading system which would also provide differential and more favorable treatment to the least developed countries. He further stressed that the Communities favored the strengthening of the Fund through an increase in its resources to permit it to pursue fully its activities. The Communities, he added, supported all efforts and measures to alleviate the plight of debtor countries on a case-by-case basis and within existing institutions.

The representative of Japan stated that all countries should work together to ensure that the emerging recovery was firmly implanted and would lead to noninflationary and sustained economic growth. To reach this objective, he said, debt problems as well as protectionism and structural adjustment should be tackled as a matter of priority; Japan was further opening its market through the implementation of a series of tariff and nontariff liberalization measures, including a substantial increase in GSP quotas on industrial products.

The representative of Canada noted that, despite signs of improvement in some countries, high rates of unemployment, continuing high real interest rates, stagnant growth in many economic sectors, and depressed commodity prices clouded the overall growth prospects of the world economy. His Government was fully prepared to explore new avenues for fostering an expansion of trade for developed and developing countries, and would continue to work actively with producers and consumers to find practical ways to stabilize commodity markets. Canada also supported the strengthening of existing international financial institutions so that they could continue to play a crucial role in solving current economic difficulties.

The representative of Sweden called for an early ratification of the Common Fund Agreement, and expressed the hope that active and constructive work would be undertaken in the Intergovernmental Group of Experts on Export Income Stabilization. With respect to financial and monetary matters, he emphasized the need for an early implementation of the 0.7 percent ODA target and for a strengthening of the resources of the Fund through an expeditious ratification of the Eighth General Review of Quotas and of the enlarged General Arrangements to Borrow.

The representative of Austria emphasized the need to provide the Fund with resources commensurate to its needs, while the representative of New Zealand called for a fundamental reappraisal of the world trading, financial, and monetary system.

The representative of Switzerland said that the international community should encourage developing countries to undertake adequate adjustment efforts and that "the best way to do so was to maintain and extend an open multilateral trading system, particularly through the respect of obligations agreed upon." The need to resist protectionist pressures was also stressed by the representative of Finland.

The representative of the U.S.S.R. said that "the crisis in the capitalist economies was not yet over, and that its impact on developing countries was being exacerbated." A major cause of the crisis, he stressed, was "an unprecedented increase in military expenditures of the major developed capitalist countries" which had resulted, inter alia, in high interest rates. This, in turn, had been specially burdensome for developing countries, which were now confronted with almost unmanageable debt servicing problems. Another source of deep concern for his Government was that "a number of developed market economy countries were taking advantage of the increasing economic difficulties of developing countries for making a concentrated attack on their sovereignty as well as on their social and economic achievements." Such attempts, he concluded, should be strongly resisted because "they were incompatible with the efforts aimed at the restructuring of international economic relations on the basis of justice and equality." Similar views were expressed by the representatives of Czechoslovakia and of the Ukrainian S.S.R.

The Fund observer made a brief statement providing factual information on issues raised at the meeting. 1/

4. Other issues

Besides the topics discussed in the plenary, the TDB also considered a number of specific issues referred to it by other UNCTAD bodies or by UNCTAD VI.

1/ Statement attached.

a. Work program on protectionism and structural adjustment

Under this item, the Group of 77 tabled a draft resolution 1/ which called for the establishment of a sessional committee of the Board to conduct a review of protectionism and structural adjustment, and provide a detailed work program regarding such a review. The text proposed by the Group of 77 suggested, inter alia, that UNCTAD members should submit information on actions relevant to commitments in Conference Resolution 159(VI) 2/ "with a view to the Board holding consultations on any departures from these commitments," and that the Secretary-General of UNCTAD should participate in all GATT meetings on safeguards in order to make it possible for the TDB to effectively carry out the review of progress in GATT work on safeguards which was also agreed upon in Conference Resolution 159(VI).

The proposal created serious difficulties for Group B, whose spokesman argued that (a) while the TDB was requested to monitor the implementation of Conference Resolution 159(VI), such monitoring referred to the general situation and did not imply that the Board should "consider" individual countries' implementation of the various commitments contained in the Resolution; and (b) it was not necessary or appropriate for the UNCTAD secretariat to participate in negotiating meetings in the GATT. After an extensive debate, the Board finally decided to remit the matter to its twenty-eighth session. 3/

b. International Export Credit Guarantee Facility (ECGF)

The Group of 77 tabled a draft resolution under this item, indicating that the detailed features of the proposed ECGF elaborated on by the Intergovernmental Group of Experts on ECGF when it met in January 1982 provided the necessary basis "to take a decision in principle on the establishment of an administratively feasible and financially viable facility," and requesting the Secretary-General of UNCTAD to convene a meeting in early 1984 to launch the process of establishing the ECGF.

The spokesman for Group B strongly objected to this proposal on the grounds that (a) the members of his Group were not convinced that an ECGF would lead to additional financial flows to and exports from developing countries; (b) the proposed scheme would benefit mostly newly industrialized countries which had been successful in mobilizing commercial credits and had achieved impressive export growth rates without the need for an ECGF; and (c) for most Group B countries, financing for an ECGF would have to come from aid budgets, with the result that financial resources would be diverted from the poorest countries which stood to gain the least from the proposed facility. After considerable discussion, the Board decided to remit the matter to its twenty-eighth session.

1/ TD/B(XXVII)/SC.1/L.1.

2/ This is the resolution on international trade in goods and services, protectionism, structural adjustment, and the international trading system, adopted at Belgrade.

3/ TD/B/L.677.

c. Economic cooperation among developing countries

The Board considered the long-standing issue of the negotiation of a Global System of Trade Preferences Among Developing Countries (GSTP). The well-known view of many developed countries was that the UNCTAD secretariat should not extend its administrative and financial assistance to meetings which would not be open to delegations from all the regional groups, since such assistance would be inconsistent with the principle of universality of the UNCTAD membership. Many members of Group B strongly objected to a draft proposal of the Group of 77 requesting the UNCTAD Secretary-General to make provision in the calendar of meetings for 1984 for up to four weeks of meetings "enabling the developing countries participating in the negotiations on a GSTP among developing countries to continue the necessary work for the establishment of the GSTP." 1/

After an extensive debate, the draft proposal of the Group of 77 was approved by a vote of the Board in the absence of Group B. This led the spokesman for Group B, at the final plenary of the Board, to lodge a strong protest against the extraordinary procedure followed in the adoption of the G-77 proposal.

d. Other decisions

The Board made a number of other decisions. It adopted a revised calendar of meetings for the remainder of 1983 and for 1984; approved a resolution on trade relations among countries having different economic and social systems, which calls for the convening of an ad hoc group of experts in 1984 to consider ways and means to expand such trade relations; 2/ and decided to annex to its report a draft resolution of the Group of 77 requesting the UNCTAD Secretary-General to review existing arrangements on export credits 3/ "from the standpoint of their implications on the trade and development of developing countries." This latter decision, however, was opposed by Group B, which stated that it was not prepared to engage in a discussion of export credit arrangements in UNCTAD fora.

1/ TD/B/L.675.

2/ TD/B/L.674.

3/ TD/B(XXVII)/SC.1/L.3.

Statement by the Fund Observer at the Twenty-Seventh Session
of the UNCTAD Trade and Development Board: October 12, 1983

Mr. President,

I would like to thank the Director of the Money, Finance, and Development Division for the interesting and thought-provoking statement he made at the beginning of the session of this Trade and Development Board. It will not come as a surprise to anyone that we in the Fund staff do not share many of the analyses and conclusions included in this statement, and in particular the views expressed regarding the adjustment problems confronted by the developing countries. At the present stage of our discussions, however, I do not feel that it would be constructive to comment in detail on the differences of opinion which might exist between the Fund staff and the UNCTAD secretariat on these problems. I shall therefore limit myself to giving some additional information regarding the outcome of the recent meeting of the Interim Committee.

1. Enlarged access

One of the most important results of the Interim Committee meeting was to decide that the policy of enlarged access, which is of a temporary character, will be continued for 1984. At the same time, the Interim Committee decided that this policy in 1984 will be subject to annual limits of 102 or 125 percent of quota of the new quotas, depending on the seriousness of the balance of payments needs and the strength of the adjustment effort, as against a current limit of 150 percent of existing quotas. While, under the 102 percent limit, most developing countries would see a reduction in their potential maximum access in absolute terms, under the 125 percent limit all of them, except one, would enjoy a substantial increase in access in absolute terms. Since the Executive Directors have not yet adopted guidelines for the application of the new limits, it is not possible at present to assess whether the new policy on enlarged access will result for developing countries in a potential maximum access in absolute terms different from that which presently exists. It is therefore premature to conclude, as the Director of the Money, Finance and Development Division has done, that "most developing countries can look forward to diminished or unchanged access to the Fund."

2. Payment of quota increase

It is true that one quarter of any quota increase must be paid to the Fund by each member country concerned in SDRs or convertible currencies. Such payment might obviously represent a burden for a developing country with a very low level of international reserves, but this burden should not be exaggerated, because any payment in SDRs or convertible currency of a quota increase gives to the contributing country the right to draw automatically the equivalent amount of convertible currency from the Fund under its reserve tranche.

3. New allocation of SDRs

While, in his initial statement to the Annual Meetings, the Managing Director of the Fund noted that the membership of the Fund has not yet been "in a position to decide whether to proceed with a new allocation of SDRs at this time," the Interim Committee has decided that the matter should be kept under active consideration. The relevant paragraph of the press communique of the Interim Committee reads as follows:

The Committee considered again the question of allocation of SDRs in the current, i.e., the fourth, basic period which began on January 1, 1982. Most members of the Committee were of the view that the recent trends in the state of international liquidity and the conditions of the world economy strengthened the case for an allocation during the current period, while other members were of the view that the case had not yet been made. The Committee agreed that discussions of the issue, which could lead to a proposal by the Managing Director commanding broad support among members of the Fund, should be pursued as a matter of priority.

