THE UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

AND THE INTERNATIONAL TRADE PROBLEM

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Thesis

Presented to the Graduate Council of the
North Texas State University in Partial
Fulfillment of the Requirements

For the Degree of

MASTER OF ARTS

By

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Denton, Texas

January, 1968
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INTRODUCTION

The concept of "economic underdevelopment" is of recent origin. It owes its existence to the emergency situation which was the result of World War II. The majority of the nations occupying the greater part of the world were called "underdeveloped" or more recently, "developing."

The term itself implies a frame of reference. To be "underdeveloped," these countries must be compared with something more developed; to be "developing," they must be on their way to a more desirable stage of development. Therefore it is assumed that there is a basic pattern which provides a yardstick for the degree of advancement toward a goal. The aim of the developing nations, then, is to achieve the stage of development which exists in the developed countries.

Any statement comparing the degree of development of two or more countries must acknowledge more than one factor. The Third Committee of UNCTAD considered the problem of international trade as an integral part of the total development problem.

It is generally accepted that no country can exist in isolation, that in our world every nation is an integral part. Some of the developed nations have expressed a great willingness to extend assistance. However, after assistance programs were begun, the general practice was for the developed countries to set their own economic aims and
execute their own economic policies regardless of the impact on the developing economies.

The area of development is one of the most pressing problems of today. With new nations emerging and older nations beginning to develop, there has been a focus of attention on trade as a part of development. As these nations mature, they must be able to step into their roles as part of the world economy. UNCTAD undertook the problem of trying to begin a series of studies to solve this problem.

The study of the results of this Conference is important because this was the first time an international gathering of so large a number of countries was held specifically to discuss trade and development problems. One hundred and nineteen nations met in Geneva in a spirit of cooperation and with the expressed willingness to permit international interests to prevail over national interests.

There are certain elements of trade as a part of development which facilitated the creation of a special committee. The features will be surveyed. The situation of the world that prompted the calling of the Conference and the statements by the delegates on this topic are of special interest. The papers presented at this Third Committee will be examined as a device to show the relation of international finance, private development finance companies, tourism, ocean shipping, and external debt to the problem of development. Also, the creation of an International Trade Organization will be discussed.
as a possible beginning to the solution of the development-trade problem.

Finally, against the background of the Conference itself, the report of the Third Committee will be analyzed and its results evaluated.
CHAPTER I

TRADE AS AN ASPECT OF INTERNATIONAL DEVELOPMENT AS
REPORTED BY THE THIRD COMMITTEE OF UNCTAD

The United Nations Conference on Trade and Development was convened in 1964 with the goal of finding ways to accomplish the main objectives of the United Nations Development Decade. The United Nations General Assembly had set the goal of an attainment of a minimum annual growth rate of 5 per cent in the income of the developing countries by 1970. This was not an excessively high target since it was not much higher than the average rate of 4.4 per cent registered in the 1950's. Nevertheless, it would have been difficult for many of the developing countries to achieve and maintain this rate of growth. The United Nations Conference on Trade and Development had as its primary goal the development of a "policy of international co-operation that would make it possible to eliminate the imbalance in trade" (1, p. 5).

In order for the developing countries to realize an increase of 5 per cent per year in income, their imports had to increase by a somewhat higher rate. One of the main reasons for this is that acceleration in the rate of growth requires additional investment; and the import
content of capital goods comprising this investment is normally much higher than that of the export generated income as a whole. Consequently, imports would have to rise at a rate higher than that of total income in order to finance investment (1, p. 5).

Another implication of the 5 per cent growth target was that exports of the developing countries would have to rise at the rate of 6 per cent per annum in order to maintain balance-of-payments equilibrium. More precisely, a volume of exports should rise at a rate which, after allowing for changes in the terms of trade, would pay for a volume of imports increasing each year.

During the 1950's this growth rate was not realized. The annual rate of growth in export volume of the developing countries was only 4 per cent per annum, and if the petroleum-exporting countries were excluded, the average would have been significantly lower. At the same time the terms of trade (an excess of exports over imports) deteriorated so that the purchasing power of exports rose by less than 2 per cent per annum (1, p. 6).

This was the starting point of the Conference on Trade and Development. If the trend of the 1950's continued, the economic situation of the developing countries would continue to worsen. UNCTAD's mission was to try to establish determined political efforts by the developing nations to improve the existing world trade situation.
Prebisch Report

At the opening of the Conference, the Secretary-General of the Conference, Dr. Raul Prebisch, gave a report entitled "Towards a New Trade Policy for Development." In this report, Prebisch defined the underlying assumption of the Conference as "a clear-cut political concept which has apparently ceased to be a subject of controversy: that the prosperous countries of the world should not neglect the problems of the economic periphery where two-thirds of the world's population live in very precarious conditions" (2, p. 86). He pointed out that there is a basic difference between recognizing this fact and formulating any vigorous policy to correct it. He said that "never before has there been an opportunity like the present of quickly solving, thanks to enormous potential of contemporary technology, the problem of poverty and its inherent evils in the developing countries" (1, p. 76). Despite this, the world tensions at that time acted as a check on poor countries' growth.

He correctly states the developing countries' feelings in his report by noting

The developing countries have come to this conference with a view to attaining a policy which will enable them to accelerate their rate of economic and social growth and to draw attention to the imperative need for a fundamental change in the policy of international co-operation which must be based on reality (1, p. 76).
After defining the developing countries' viewpoint, Prebisch gave a brief summary of their economic situation. He noted that the non-industrial countries have the advantage of having at their disposal the great potential of modern technology. Nevertheless, he feels that the problems of adapting this technology to their "infant" economies overcame the advantage. For example, modern technology requires a very high input of capital per person and the developing countries have a low per capita income, which makes it difficult for them to accumulate capital quickly from their own resources. Also, the high rate of population growth present in most underdeveloped nations is an added liability.

Prebisch points out that another obstacle, a "trade gap," keeps developing countries from realizing their full potential growth rate. He says that if the underdeveloped are to achieve the 5 per cent minimum rate of annual income growth by 1970 (as set by the United Nations Development Decade), they must import approximately $20,000 million over and above their export proceeds—assuming that the trends of the past decade continue and if the terms of trade do not continue to deteriorate. He explained the "trade gap" by using economic principles. As per capita income grows owing to technological advances, the demand for primary commodities rises much more slowly than the demand for industrial goods. This becomes more apparent with the development of synthetics. The goods for which
demand grows slowly are usually raw materials from the developing
countries. On the other hand, they import products for which there is
an accelerated demand. Hence a persistent imbalance exists in the
developing countries, and the opposite in the industrialized countries
(1, p. 79).

Primary production is not sensitive to market changes.
Therefore, it tends to expand beyond demand. There are economic
and social impediments to the rapid adjustment of primary production,
especially when there are large increases in productivity following
technological advances in the latter sector. Primary commodity prices
have a tendency to fall in relation to the prices of manufactured goods
due to the "free play" of market forces. However, the industrialised
economies only experience this in their internal sectors. To solve this
problem, the developed economies only have to redistribute their income
internally. On the other hand, when the same thing happens in the de-
veloping economies, it is reflected in a transfer of income to the indus-
trial countries. In effect, there is a regressive redistribution of income
that can only be offset by thorough co-operation of the industrial
countries (1, p. 77).

Regarding the sacrifices the industrial countries would have to
make to offset the "trade gap," Dr. Prebisch said that in the long run
the sacrifice will take place anyway "because their industries will lose
such promising export opportunities" (2, p. 87).
To attack the problem of the persistent "trade gap," Dr. Prebisch proposed six main points that he considered to be the attainable minimum. First, Dr. Prebisch proposed that primary commodities should be given easier access in the markets of the major industrial centers and be assured a reasonable share in growth of consumption. Secondly, the purchasing power generated by export earnings of the poor countries should be increased and stabilized, either by commodity agreements or by compensatory financing. Third, restrictions presently hampering the entry of developing country manufactures and semi-manufactures should be replaced by a preferential-type policy in order to assist infant industries of the underdeveloped in finding external markets. Fourth, groups of developing nations should come together in order to encourage import substitutions. Next, trade with the socialist countries must be encouraged on a long-term basis in order to move from bilateral to multilateral trade. Finally, the need to reduce the burden of servicing external debt by readjusting loan periods and terms must be studied (1, pp. 78-79).

Concluding his report, Prebisch acknowledged the idea that countries must develop through their own efforts. He points out, though, that these developmental procedures must be allowed to take the form of increases in exports. In this respect, the international institutions should be changed and the industrial countries should help bear the cost. He stressed the "great opportunity" the Conference had of solving the basic
problems of the developing world and hoped this opportunity would not be wasted (2, p. 87).

Prebisch's concluding remarks are reminiscent of Barbara Ward's philosophy. In her book, The Rich Nations and the Poor Nations, she says the industrialized nations must realize that there is a social and economic revolution taking place in the world and must take steps to help the developing countries. She says the developed countries must supply the capital to fill the "trade gap" (1).

Thus the developing countries were able to identify their cause with Dr. Prebisch's report.
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CHAPTER II

TRADE AS AN ASPECT OF DEVELOPMENT AS VIEWED BY THE DELEGATIONS

After Prebisch's report, UNCTAD was organized. Abdel Moneim El Kaissouni, Deputy Prime Minister of the Arab Republic, was elected President of the Conference by acclamation. The vice-presidents were elected from representation of Western Europe, the United States, and other nations. There were twenty-seven Vice-Presidents. George Hakim of Lebanon was elected Rapporteur and the selection of committees was begun (2, p. 86)

After this initial phase of UNCTAD was completed, the delegates made their opening remarks in behalf of their countries. These remarks fell into three distinct categories: the seventy-five underdeveloped nations, the industrial nations, and the Soviet Bloc nations.

Underdeveloped "Seventy-Five"

Among the seventy-five developing countries, three main sub-groupings could be discerned. The first consisted of the so-called "moderates": India, Pakistan, Malaysia, and the Philippines, occasionally the United Arab Republic, and many of the Latin Americans, especially Colombia and Peru. The Indians played an outstanding
leadership role of this segment of the underdeveloped nations. The moderates were generally anxious to avoid an acrimonious or unrewarding confrontation between the developing countries and the industrialized countries and sought to secure some genuine reconciliation of viewpoints between the two groups which would hold out real hope of wresting meaningful concessions from the Western industrialized countries. While sharing the desires common to all "seventy-five" for new initiatives in trade matters, they realized that the efficacy of any new measures would be dependent upon the active cooperation of the industrialized West (3, p. 12).

The moderates preferred to work for a compromise between the interests of the developed and underdeveloped economies. For example, Wahid-Uz-Zaman, Pakistani delegate, stated:

> It is quite clear that what is required is a fundamental change in the approach of the industrially advanced countries in the problems of less-developed countries . . . . Indeed, would it be too much to expect the industrially-advanced countries to bear on our problems the same determination with which they are tackling the needs of the less-developed parts of their countries . . . (1, p. 304).

Zaman also said that UNCTAD should not concern itself with specific measures for assisting the underdeveloped countries without first having an awareness of these countries' problems. Likewise, the Philippine delegation noted that an expanded GATT would aid in solving some of the international financial problems. The Philippines, with this action, conceded one of the industrial West's arguments thus
demonstrating its compromising attitude (1, p. 315). The Malaysian delegation actually stated this policy in its opening remarks. They expressed the desire that the developing economies not "lose sight of reality" and remember that "we, the developing countries, are going boldly to ask the industrialized countries for a greater contribution. But the solutions we reach should endeavor to reconcile the different interests involved" (1, p. 263).

The second sub-group was the eighteen African Associates of the European Economic Community. They generally followed the lead of France, and were naturally anxious that the preferential treatment they enjoyed in the EEC should not be discarded until some alternative benefits could be agreed upon. This was a distinct advantage to the industrialized nations for it often resulted in sharp divisions between the different African factions.

Finally, the "radicals" were the third sub-group. They were numerically in the ascendancy and displayed few inhibitions. This group was later able to push resolutions through committees by "steam roller" techniques without regard to either the other countries or the consequences (3, p. 13).

Aime Matsika, representative from the Republic of the Congo (Brazzaville), stated the case for the "radical" developing nations:
We, the under-developed countries, are unanimous in our case. Our will to achieve positive results is established. It is a question of the two-thirds of mankind who share only 15 per cent of the world's income that must be helped (1, p. 156).

Many of these delegations, in their attempt to define the basic problems of development, voiced their criticisms against the existing trade situation. They then offered their particular solutions. Argentina's Eugenio Blanco stated that his country's stagnation was caused by adverse developments in the external sector. To correct this, he called for unrestricted market opportunities for the developing nations plus compensation to the "poor" by the "rich." This compensation was to be administered by the developing countries with no outside interference (1, p. 103).

Regional organizations were criticized by many delegates. Mohammed Sarinar Omar, Minister of Commerce of Afghanistan, surveyed his country's trade gap problem and said that Afghanistan's trade had suffered because of the tariff barriers of the EEC (1, p. 88). Victor Kanga, the Cameroon delegation head, also stated that regional agencies could not solve the world's economic problems. Blanco agreed with these comments and accepted their proposed solution (1, p. 136). This was the creation of a new organization which could change trade practices. The proposed organization would have to be world wide and the "Conference should establish a permanent secretariat to continue the work" which was started at UNCTAD (1, p. 88). This secretariat would call
additional conferences and would eventually absorb the General Agreement on Trade and Tariff. Concluding his remarks, Omar called for "a new global approach to the world's problem in the field of trade and development" (1, p. 89).

Colonial domination, price fluctuations, quantity restrictions, and agricultural problems were also stated as causes of under development. Rudolphy Yav, delegate from the Republic of the Congo (Leopoldville), expressed the desire to see prices stabilized at relatively high levels. He said this would benefit the developing countries in three ways. First, it would relieve them of the burden of fluctuating prices. Second, stable prices would permit the exporting countries to acquire sufficient resources to import the goods they need for development. Finally, domestic consumption of primary commodities would be stimulated in the industrialized countries (1, p. 157).

Despite these many proposals, these countries were primarily interested in getting the cooperation of the developed countries. Argentinean representative Blanco summed up the feeling by saying:

It is difficult to put forward proposals aiming at a more equitable distribution of income at the national level if policies with parallel objectives are not put into practice on the international plane... the Governments of the developed countries will need to make decisions at the international level with the same foresight and sense of urgency that they habitually show when solving internal problems (1, p. 101).

To achieve the goal of enlisting the industrialized nations' help, these "radical" developing countries tried to use force. Zanna Bukar
Dipcharina, head of the Nigerian delegation, sensing that numerical superiority was now in the hands of the "seventy-five" underdeveloped nations, urged these delegations to push proposals through the coming committee discussions (1, p. 300).

**Industrialized Nations**

The second major group at UNCTAD was the industrialized nations. They were in the minority but industrialization was their strength. The United States, Canada, the United Kingdom, Switzerland, and occasionally Sweden were often in disagreement with themselves as well as with the developing countries.

While the radical developing economies were determined to set up a new international agency and abandon GATT and push through aid measures by numerical strength, the industrialized economies were just as determined not to concede any of their demands. Theirs was a defensive position however. The Conference was an attempt on the part of the underdeveloped nations to force international trade concessions from the industrial economies. The industrial countries realized this. Consequently, they tried to preserve the *status quo* or concede as little as possible. The opening statements of the delegates demonstrate this.

For example, George M. Ball, Under-Secretary of State of the United States, explained that the developing nations should not expect to
achieve self-sustaining growth automatically through developed nations giving aid. He explained that the industrial nations themselves must undertake measures to maintain full employment and a high rate of economic growth.

Ball said that until full employment is gained in the industrialized economies, no substantial relaxation of tariff barriers could be expected because the labor sector of the industrialized economies would not be prepared for the sudden price fluctuations. Ball said that the Conference "must be sure also that such proposals will not create more problems than they solve" (1, p. 386). He then pointed out that many industrialized economies had nevertheless lowered their tariffs on primary products, semi-processed goods, and manufactured goods of special interest (1, p. 395). Ball introduced the political aspect of world trade by stating that

Special trading arrangements have historically evolved in the context of special political relationships, and that special responsibilities in the area of trade are likely to carry with them special responsibilities in the areas of politics and even defense (1, p. 386).

Instead of the developed countries opening their markets to the underdeveloped countries, the United States' position was that the underdeveloped countries should spend more effort trying to support and expand their own internal markets. This is particularly true for the agrarian economies. If internal markets were not large enough (one hundred nations represented at UNCTAD have populations of less than
Ball also pointed out that in order for economies to stabilize and grow, the countries must put aside considerations of political prestige and advantage and commit themselves to a full line of action. The developing economies could also educate their businesses in the standards of conduct of international business which have been changing over the years. He pointed out that many nations are still influenced by "cliches" of the past (1, p. 398).

The United States' position on aid to the developing nations was firm. Ball said that any foreign aid should assist developing countries with a supplemental source of capital. Their contribution should be given to produce a catalytic effect within the developing economy not to support the economy by external donations. The developing countries should take this capital and allocate it into worthwhile projects. Ball pointed out that the developed nations have not, in some instances, acquired the experience to formulate such projects (1, p. 398).

In summation Ball emphasized that economic growth depends on a number of interrelated factors. To pick a factor and emphasize it--capital assistance--would distort the function of UNCTAD. The conference should not try to adopt measures that in helping some, harm others. Finally, he called for an integration of ideas and an intelligent appraisal of all proposals (1, p. 399).
The United Kingdom's recommendations were along the same line. In the opening of his speech, Edward Heath differed with some conclusions of the Prebisch report. Heath said that Prebisch had argued that the existing rules of international trade did not take into account the fundamental differences in structure between the developed and the developing economies, and that the differences tended to lead to a continuing deterioration in terms of trade of primary producing countries and redistributing their incomes to their disadvantage. Heath pointed out that the terms of trade of the underdeveloped nations had generally improved since 1962, thus bringing about the question of whether this is a reversal of the trend or merely an interruption. Therefore, the United Kingdom felt that no concrete conclusions should be drawn. Heath suggested that the individual problems of the nations should be dealt with without making universal or permanent proposals. The United Kingdom stressed a pragmatic approach to the international trade problems (1, p. 391).

Heath also expressed Britain's confidence in GATT. He said that despite the change in international trade since its formation, GATT should not be swept aside for a new, untried body. Heath said that GATT was itself an evolving organization and that, as it evolved, it would become a more effective instrument for dealing with international trade problems (1, p. 394).
Finally, Heath suggested the need for a realistic attitude at UNCTAD. Pointing out the complexity and vastness of the conference, he said the delegates should realize that all the problems could not be solved. The delegates should think of UNCTAD as a stage in a continuing effort "to improve the economic conditions of the world, and to see that the proposals adopted would move in this direction (1, p. 394)."

The Swedish delegation pointed out that a system of preferential treatment of export goods from the underdeveloped countries, as proposed by these underdeveloped countries, could possibly slow down the process of reducing tariff barriers. Pointing out that preferences would be meaningful only if they were stable and were maintained at a fairly high level, Sweden said that such preferences would likely delay the liberalization of world trade. Finally, Sweden said she was not in favor of creating a new agency and that any action should be conducted through GATT (1, p. 355).

The Swiss delegation also stated a firm conservative policy. Admitting that some advantages must be given up by the industrialized nations, the Swiss nevertheless emphasized that in order for a proposal to work effectively, it must have the full cooperation of the industrialized nations. The head of the delegation, Hans Schaffner, stated that the existing institutional machinery (GATT) was adequate and could solve most of the problems. Finally, Schaffner summarized the feeling of all industrialized nations by concluding:
Trade policy cannot alone supply the solution to all the economic problems of the developing world. Financial aid can do much, but not everything. The mainspring of success will have to be provided by the developing countries themselves. It is the individual human beings, their feelings, their ambitions, their intellectual and moral background . . . that will be decisive for the future of the country . . . . Economic help from abroad is important; but the human element, its quality and distinction, are truly irreplaceable (1, p. 357).

Soviet Bloc

The last major representation was the Soviet Bloc. It was often split on a number of issues, specifically the changing of Soviet trading policies. This group, however, agreed that a new world trade organization was needed. The Soviet Union and its bloc were in a precarious position at the Conference. They were trying to get the support of the developing nations while at the same time trying to refrain from changing their trade policies. N. S. Patolichev's opening remarks brought up such "cold war" issues as the representative of Red China, the Cuban blockade, and Western imperialism. An attack against colonialism followed (1, p. 385). Then Patolichev tried to achieve a unification of purpose with the underdeveloped nations by stating that the USSR was prepared to participate with other countries in the "elaboration and realization of measures" designed to extend "trade and economic cooperation" in the international sphere according to the best interests of the underdeveloped nations (1, p. 386). Again asserting Russia's cooperative attitude, Patolichev stated that his country believed
the solution to the problem of economic growth for the developing economies lay in the industrialized nations supplementing the underdeveloped countries with economic and technical assistance "rendered on easy terms with due respect for national sovereignty of the recipient countries" (1, p. 387).

After this wholehearted acceptance of the developing countries' cause, the Soviet Union tried to decrease its participation in the aid programs by stating that the "Soviet Union has no excessive capital which should be invested abroad. This practice runs counter to the very nature of our system." However, Patolichev said that the Soviet Union did find possibilities to allocate part of its funds which could be used internally for rendering assistance to the liberated peoples in the development of their national economies (1, p. 387).

Despite its allegiance to the underdeveloped nations' cause, the Soviet Union felt that the United Nations should establish an agency within its control to study the problems of international trade. This organization would not have control over international trade, as the underdeveloped nations proposed, but would "become a centre coordinating the activities of the United Nations subsidiary bodies and other international organizations in the field of trade" (1, p. 389). The Soviet Union, Poland, and Czechoslovakia presented their proposals for this organization in a paper "Principles of International Trade Relations and Trade Policy."
CONCLUSIONS

The evidence indicates that although the participating nations of UNCTAD pledged from the beginning to cooperate for the betterment of world development, they had very different ideas about how this should be accomplished. Each major group was willing to engage in activities to benefit the underdeveloped, so long as that group's objectives were not impaired.

For example, the major industrial countries continuously proclaimed their willingness to help the underdeveloped. However, when specific proposals were presented that conflicted with an industrial nation's income, that nation refused to agree to the proposal. The developing countries also were guilty of this.

While united in their drive for aid from the developed countries, the underdeveloped could not agree among themselves on which specific products were to be used in the new trade agreements.

The Soviet bloc, while agreeing to aid the developing countries, was trying to preserve its economic position while using uncomplimentary propaganda on the West.

The statements by the delegates gave a clear indication of the difficulties faced by UNCTAD. The developing countries would demand as much as they could, the developed countries would give up as little
as possible, and the Soviet bloc would try to ridicule the Western nations' proposals while trying to preserve its world trade position.
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CHAPTER III

ECONOMIC GROWTH AND EXTERNAL DEBT

At the second plenary meeting, the Third Committee was allotted three items for its agenda. The items for discussion were international commodity problems, improvement of the invisible trade of developing countries, and financing for an expansion of international trade. The discussion of these topics was led by the Third Committee's Chairman Janez Stanovnik (Yugoslavia), Vice-Chairman Hassan Bashii (Sudan), and Rapporteur Giorgio Smoguina (Italy).

To aid the Committee in its discussion, several studies were conducted and the results presented. The discussion of external debt as a facet of economic development was one such study.

This study was concerned with the problems of assessing the servicing problems of developing countries and the limits of external indebtedness these countries could assume. This study attempted to provide a conceptual framework within which particular data and forecasts could be analyzed. The study did not, however, offer any recommendations on operational procedure.
Analytical Framework

The debt servicing capacity of a developing country is determined, in part, by the benefits and costs of foreign capital in the process of economic growth. Foreign capital is a supplement of national resources in raising the rate of capital formation. Foreign capital raises the rate of income growth by making possible a high rate of investment.

The cost of foreign capital in terms of payment of debt service acts against the benefits. This payment implies that the borrower country has to give up a certain amount of purchasing power which could otherwise be used for consumption or investment. "Debt servicing capacity depends on the ease with which a country can reconcile competing claims on its resources: on the one hand there is the demand for a higher standard of living, on the other there is the obligation to foreign creditors" (1, p. 75).

In the short run, debt servicing difficulties take the form of a liquidity crisis. An inequality in the balance of payments is the reason. Whether a country can make both ends meet depends on the elements of rigidity and countervailing elements of flexibility tied together by the skill of the debtor country's authorities. Simply making the short run balance of payments favorable is not the answer. Debt servicing capacity cannot be separated from the long run problem of economic growth. As long as the incidence of debt service falls on a part of the increase in per capita income, it is possible for consumption and nationally financed
investment to rise pari passu with service payments. And, if the rate of increase in real income and savings is reasonably high, it can be said that debt servicing payments will be made smoothly. Therefore, continuing growth in per capita production and the prices of rapid accumulation of productive capital is the basic long run condition of debt servicing capacity. The main task of the long run analysis is to define the conditions under which the economic growth process can succeed, and which can provide a basis for continuing servicing of external debt and, if necessary, its ultimate retirement (1, p. 76).

Liquidity Aspects: Fluctuating Variables

A major element of balance-of-payments vulnerability of many developing countries arises from instability of export earnings. Declines in export earnings have been caused by occasional natural failures in supply, cyclical changes in short-run international demand, over production in relation to demand, and domestic policies which adversely affect the incentives to produce for exports or to sell on the international market (1, p. 77).

Table I shows the share of two principal commodities in total exports. Relying on one or two commodities leaves an economy vulnerable to fluctuations in supply. Coffee offers an excellent example.
TABLE I
SHARE OF TWO PRINCIPAL COMMODITIES
IN TOTAL EXPORTS
1955-1962

(in percentages of total exports)

<table>
<thead>
<tr>
<th>Country</th>
<th>Percentage</th>
<th>Country</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Venezuela</td>
<td>91</td>
<td>Honduras</td>
<td>63</td>
</tr>
<tr>
<td>Colombia</td>
<td>86</td>
<td>Sudan</td>
<td>62</td>
</tr>
<tr>
<td>Uruguay</td>
<td>77</td>
<td>Bolivia</td>
<td>60</td>
</tr>
<tr>
<td>Ecuador</td>
<td>77</td>
<td>Brazil</td>
<td>60</td>
</tr>
<tr>
<td>Costa Rica</td>
<td>76</td>
<td>Nicaragua</td>
<td>58</td>
</tr>
<tr>
<td>El Salvador</td>
<td>74</td>
<td>Thailand</td>
<td>57</td>
</tr>
<tr>
<td>Argentina</td>
<td>70</td>
<td>Philippines</td>
<td>52</td>
</tr>
<tr>
<td>Ethiopia</td>
<td>64</td>
<td>China (Taiwan)</td>
<td>49</td>
</tr>
<tr>
<td>Pakistan</td>
<td>64</td>
<td>Turkey</td>
<td>42</td>
</tr>
<tr>
<td>Dominican Republic</td>
<td>63</td>
<td>Spain</td>
<td>25</td>
</tr>
</tbody>
</table>


Coffee is the second most common primary commodity after petroleum, moving in international trade. For many developing nations the fortunes of the world coffee market determine the flow of export income and thus the capacity to import. The most recent coffee cycle started early after World War II, when supply was short and demand was strong. The price of coffee rose sharply until 1954 when supply caught up with and then passed demand. For the next eight years, prices declined and earnings from production and exports of coffee fell each year. The paradox of primary product economies is that in 1962 the quantity of coffee produced
was 50 per cent greater than in 1954; and the exchange earnings were one-third smaller than in 1954. The tragedy is that some dozen countries in the tropic belt, including half of Latin America and Africa, depend on coffee as their main export (1, p. 78).

Before World War II, capital flows were speculative and extremely sensitive to the ups and downs of the business cycle. In modern international trade, there is a different picture. Private direct investment is based on detailed information. National and international lending agencies are large suppliers of foreign investible funds and these are lent mainly for production purposes. Also, while there have been downward swings in the capital flow into individual developing countries, such capital flows have tended to compensate for declines in export receipts (1, p. 80).

It is true by definition that a country would have no debt servicing problem if capital inflow were always sufficient to allow it to meet its debt servicing obligations while at the same time maintaining imports at a level which the country considers acceptable. There are some capital inflows on which a country can confidently rely. Disbursements on project loans will continue so long as the project goes forward and any other conditions of the loan are completed. Suppliers' credits are usually available unless the country is considered to be in very severe balance-of-payment difficulties. On the other hand, the inflow of private direct investment may fluctuate with changes both in the capital importing
and the capital exporting countries. But since a large amount of foreign private capital in developing countries is invested in manufacturing for the domestic market, this exercises a stabilizing influence. Also, investment loans from international agencies are not sensitive to short-run fluctuations in the balance of payments. Loans and grants by foreign governments are anticyclical in nature, but there are political aspects that cause instability in government-to-government flows (1, p. 80).

The final element in export declines is emergency and/or inflation-induced imports. Crop failures and bad harvests may lead to significant increases in food and other agricultural imports. Domestic inflation within the framework of pegged exchange rates also destabilize balance of payments. In view of these facts, it is becoming clear that flexible exchange rates are needed to stabilize inflationary aspects of developing countries. However, the rate of domestic monetary expansion must be kept within limits even while such stabilizing mechanics are used.

**Liquidity Aspects: Offsetting Variables**

The offsetting variables to a deficit in balance of payments are changes in reserves (both convertible currency and gold), compensatory financing, and compressible imports. Two changes have taken place in the level and complexion of reserves in the post-war period. First, due
to the increased emphasis on development and the growing need for investible resources, the opportunity costs of maintaining foreign currency and gold reserves has risen. Secondly, provision of liquidity through the International Monetary Fund (IMF) has to a certain extent reduced the need to maintain these large reserves of gold or convertible foreign currency (1, p. 81).

Another feature that has assisted developing countries with balance-of-payment difficulties is compensatory finance. The IMF has been of great importance in this area. The fund introduced a compensatory facility to offset fluctuations in export earnings. One of the most important sources of compensatory finance since 1945 has been the creating of public lending agencies by the developed countries, particularly the United States. Still another form of compensatory financing is short-term borrowing in the private market. The advantage of compensatory finance lies in the fact that it is an effective substitute for the maintenance of large gold reserves and foreign exchange. "As a general rule, countries which enjoy close and harmonious relations with the major financial centres may be regarded as having a second line of reserves" (1, p. 82).

The flow of private short-term capital has had two features. First, in many cases it has moved from a developed country to a presently or formerly dependent territory, largely through the branches of the developed countries' financial institutions. Secondly, where such
conditions prevailed, lenders charged a high premium for risk. Such lending led to the future threat of liquidity by creditors. When compensatory finance for short term credit contracted, and export declines lasted a number of years, an overhang of debt with short maturity was created. This overhang is the major threat to liquidity (1, p. 82).

Finally, the compressible part of the import bills serves as an offsetting variable. The imports which can be reduced depend largely on the patterns of production and demand in each country. Some countries may produce most of their manufactured consumer goods domestically but import food and raw materials, or vice versa. A rough indicator which may be used to indicate the degree of compressibility is the proportion of consumer goods other than food, in total imports. It has been assumed that developing countries would rather cut down on importation of these items, especially in the short run, than reduce imports of food, raw materials, fuels, and capital equipment.

**Liquidity Aspects: Rigid Variables**

The degree of inflexibility of imports present in any particular case will depend not only on the shape and pattern of development, but also on the degree of rigidity with which income growth targets are pursued. While these factors vary from case to case, their effects can be seen if studies are made of the patterns of adjustment of developing countries to declines in their capacity to import. It is in deciding the
minimum level of imports that developing countries encounter the most serious problems of choice.

Interest of foreign debt is the most rigid element of a country's balance on payments. Fixed-interest debt consists largely of public and publicly-guaranteed debt. Consequently, any failure to pay this charge adversely affects the borrowing government's ability to save and to transfer savings. As a result of this, the country's credit standing is undermined (1, p. 83).

Maturities concentrated in a short period are the most important causes of liquidity crisis. This can be called an unfavorable debt structure. There are four causes of this. First, in cases where there was a decline in exports, the affected countries borrowed abroad, mostly on short term. If there was no quick recovery, quick liquidation became a problem. Second, in a period of growing export demand, the producers incurred short-term debt in order to produce more. Too optimistic expectations regarding the duration of high prices, coupled with imperfections in the monetary system led to a liquidity crisis. In both instances creditors usually agreed to extend credit. The result was an overhang of compensatory indebtedness (1, p. 84).

Another cause for maturities to be concentrated in a short period was the post-war financing of purchases of capital equipment at medium terms. These medium term credits weigh particularly heavy in the debt structure of these countries which have undergone structural
change since the war by expanding the stock of fixed capital in the industrial sector. Finally, a number of developing countries have experienced inflation-induced increases of imports at one time or another. Some are still in the midst of an inflation. If sufficient foreign exchange reserves are not available, imports are then bought on short and medium term credit. After the inflation is over, the country is saddled with a lot of short and medium term debt (1, p. 84).

All of the different types of variables combine to form the liquidity problem facing a number of developing countries. There are many variables and information is inadequate.

The final choice of a country facing liquidity difficulties is between the minimum tolerable level of imports and debt servicing. In this, as in many other respects, there is an analogy between an individual and a country. For the individual also, when his income falls, the choice is between paying his debts and meeting minimum subsistence expenses. The question for him, as for a country, is how far the belt can be tightened (1, p. 88).

Long-Term Aspect of Debt Servicing Capacity

This aspect of debt servicing capacity should focus on the benefit and cost of foreign capital to a country in the growth process. This can be in terms of macro-economic magnitudes such as savings, investment, income, exports and imports. In this context, the rate of foreign capital is to supplement national resources in raising the
rate of capital formation. Given the level of per capita income and the pressure of population growth, there is a considerable gap between national savings and a desirable rate of investment in many developing countries. The gap is widened in some cases by capital outflow which means that not all national savings are available to finance domestic investment (1, p. 90).

The savings-investment mechanism is at the heart of the growth process and foreign capital can play an important role. Benefits depend on the efficiency with which foreign capital and the country's natural resources are translated into income, the extent to which the additional income is saved and used to finance domestic investment, and the rapidity with which internal structural adjustments are made and then reflected in the composition of imports and exports. The benefits are offset by costs. This cost is determined by the condition on which external capital is made available and the magnitude of gross capital inflow in the future (1, p. 91).

The behavior of gross capital inflow varies in different stages of what may be called the debt cycle, and this is closely linked to economic growth. In the first stage of the development process, a country normally borrows enough externally to finance not only the gap between savings and investment, but also to pay all of the interest on external debt and, therefore, the burden of servicing foreign capital is zero. As a consequence, however, the external indebtedness
increases rapidly, since interest on debt incurred previously is paid by borrowing again which also carries interest charges. The second stage begins when the volume of gross domestic savings equals the volume of gross domestic investment. In this instance, the country does not need to rely on external capital for financing investment; however, it still borrows abroad to make service payments on debt accumulated in the first stage. As the second stage proceeds, the country services foreign capital by paying an increasing proportion of the interest out of domestic savings. At the very end of this stage, external debt reaches the peak and ceases to grow (1, p. 91).

The third and final stage now begins. Domestic savings are sufficient to finance all domestic investment and pay the entire interest cost of accumulated debt. Also, the country now begins to generate excess savings and the country can begin to repay debt (1, p. 96).

There is nothing automatic or inevitable about this progression. However, in a "typical or normal" developing country the IBRD estimated that the cycle would span 36 years, with the phase of indebtedness lasting about 25 years (1, p. 97). This was a hypothetical model based on many assumptions. There are instances of both extremes: growth conditions which are extremely poor and others which are extremely favorable.
Most developing countries consider the acceleration of economic growth the basic task for the future. Growth targets are ambitious compared to domestic resources. Therefore, there is a massive demand for foreign inflows of capital. For growth in income and in savings to materialize, there should be a sizeable number of investment projects started yearly. In other words, the aggregate investment rate must be at a sufficiently high level or the whole process may never "get off the ground" (1, p. 103).

A Statistical Presentation

The IBRD also made a statistical survey which viewed international capital flows and indebtedness as a part of economic growth and development. This study contains statistical data on international public indebtedness and on debt service payments.

Indebtedness

International indebtedness reflects the cumulative resource gap, changes which have occurred in this gap over time, and the terms on which external funds needed to fill the gap were made available. Public and publicly guaranteed loans are obligations of the developing governments. The IBRD presented data from 1955 to 1962 on the growth in external public indebtedness for thirty-seven countries. Fig. 1 and Table II show this growth. The average annual rate of increase for the 5 regions was 15 per cent (1, p. 110).
TABLE II

GROWTH IN PUBLIC INDEBTEDNESS, THIRTY-SEVEN COUNTRIES,
END 1955 TO END 1962

(In millions of U. S. Dollar equivalents)

<table>
<thead>
<tr>
<th></th>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Latin American</td>
<td>3996.1</td>
<td>4277.2</td>
<td>4921.5</td>
<td>5710.6</td>
<td>5816.3</td>
<td>6573.4</td>
<td>7614.7</td>
<td>8913.0</td>
</tr>
<tr>
<td>South Asia and Middle East</td>
<td>987.6</td>
<td>1398.5</td>
<td>1756.1</td>
<td>2527.5</td>
<td>2810.7</td>
<td>3322.5</td>
<td>3914.4</td>
<td>5072.9</td>
</tr>
<tr>
<td>East Asia</td>
<td>306.7</td>
<td>350.3</td>
<td>440.3</td>
<td>571.8</td>
<td>643.1</td>
<td>655.2</td>
<td>729.0</td>
<td>850.1</td>
</tr>
<tr>
<td>Africa</td>
<td>733.2</td>
<td>875.4</td>
<td>926.0</td>
<td>996.7</td>
<td>1079.4</td>
<td>1224.8</td>
<td>1347.0</td>
<td>1437.4</td>
</tr>
<tr>
<td>Southern Europe</td>
<td>1004.5</td>
<td>1079.4</td>
<td>1081.7</td>
<td>1304.0</td>
<td>1517.0</td>
<td>1482.0</td>
<td>1695.5</td>
<td>1957.7</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>7030.1</td>
<td>7980.8</td>
<td>9125.6</td>
<td>11110.6</td>
<td>11860.5</td>
<td>13257.9</td>
<td>15300.6</td>
<td>18231.1</td>
</tr>
</tbody>
</table>

Fig. 1--Growth in external public indebtedness--37 countries
(Debt outstanding at end of year in thousand millions of U.S. dollar equivalents.)

Source: See Table II.
Table III shows the level and growth of debt in a sample of countries with large debts.

The increase in indebtedness is due to the net inflow of resources provided on loan terms. An increase in exchange requirements for expanded capital formation and other import increases in the developing countries, as well as borrowings undertaken to supplement the sluggish or declining exchange earnings all have contributed to the increase in indebtedness in some countries during the last seven years (1, p. 110).

Service payments on public and publicly guaranteed debt of the thirty-seven countries studied rose from $700 million in 1956 to $2,400 million in 1963 (1, p. 112). Since debt outstanding increased at 15 per cent per annum in the same seven-year period, the implication is that the effective terms of trade were deteriorating. Fig. 2 and Table IV show the level and growth of public debt service of the selected countries.

In 1963, as well as in 1956, amortization constituted approximately 75 per cent of the total service payments on public and publicly guaranteed debt. This is caused from the large proportion of debt that consists of medium and short-term maturities. Also, international interest rates have been held to a level corresponding to interest rates in the developing countries, plus a risk premium (1, p. 113).

At the end of 1942 the average aggregate debt outstanding and disbursed of the thirty-seven countries amounted to about $15,000 million, and they paid about $600 million interest and $1,800 million in repayment
### TABLE III

**SELECTED DEBTORS: PUBLIC DEBT OUTSTANDING**

**1955-1962, END OF THE YEAR**

(In millions of U. S. dollars)

<table>
<thead>
<tr>
<th>Country</th>
<th>End 1955*</th>
<th>End 1962</th>
<th>Average Annual Percentage Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>India</td>
<td>310</td>
<td>2936</td>
<td>38</td>
</tr>
<tr>
<td>Brazil</td>
<td>1380</td>
<td>2349</td>
<td>8</td>
</tr>
<tr>
<td>Argentina</td>
<td>(600)</td>
<td>2067</td>
<td>19</td>
</tr>
<tr>
<td>Mexico</td>
<td>479</td>
<td>1360</td>
<td>16</td>
</tr>
<tr>
<td>United Arab Republic</td>
<td>(150)</td>
<td>968</td>
<td>30</td>
</tr>
<tr>
<td>Turkey</td>
<td>(600)</td>
<td>935</td>
<td>7</td>
</tr>
<tr>
<td>Israel</td>
<td>(360)</td>
<td>868</td>
<td>13</td>
</tr>
<tr>
<td>Pakistan</td>
<td>147</td>
<td>829</td>
<td>28</td>
</tr>
<tr>
<td>Yugoslavia</td>
<td>332</td>
<td>778</td>
<td>13</td>
</tr>
<tr>
<td>Chile</td>
<td>351</td>
<td>742</td>
<td>11</td>
</tr>
<tr>
<td>Columbia</td>
<td>279</td>
<td>639</td>
<td>13</td>
</tr>
</tbody>
</table>

*All figures in parentheses are crude estimates.*

**Source:** See Table II
Fig. 2--Growth of service payments on external debt-37 countries (thousand millions of U.S. dollar equivalents).

TABLE IV
GROWTH IN PUBLIC DEBT SERVICE, THIRTY-SEVEN COUNTRIES, 1956 THROUGH 1963
(In millions of U. S. Dollar equivalents)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Latin America</td>
<td>455</td>
<td>575</td>
<td>779</td>
<td>848</td>
<td>1049</td>
<td>1084</td>
<td>1280</td>
<td>1355</td>
</tr>
<tr>
<td>South Asia and Middle East</td>
<td>95</td>
<td>162</td>
<td>186</td>
<td>217</td>
<td>284</td>
<td>298</td>
<td>378</td>
<td>477</td>
</tr>
<tr>
<td>East Asia</td>
<td>22</td>
<td>27</td>
<td>26</td>
<td>46</td>
<td>56</td>
<td>89</td>
<td>62</td>
<td>112</td>
</tr>
<tr>
<td>Africa</td>
<td>37</td>
<td>44</td>
<td>49</td>
<td>55</td>
<td>63</td>
<td>78</td>
<td>104</td>
<td>143</td>
</tr>
<tr>
<td>Southern Europe</td>
<td>71</td>
<td>50</td>
<td>60</td>
<td>127</td>
<td>253</td>
<td>202</td>
<td>174</td>
<td>321</td>
</tr>
<tr>
<td>Total</td>
<td>680</td>
<td>858</td>
<td>1100</td>
<td>1293</td>
<td>1706</td>
<td>1751</td>
<td>1998</td>
<td>2408</td>
</tr>
</tbody>
</table>

Source: See Fig. 2
of principal in 1963. This shows that the effective average weighted rate of interest amounted to about 4 per cent; and the average life of outstanding and disbursed loans would be slightly more than eight years (1, p. 113).

The fundamental point to be noted is that the largest proportion of total service payments consists of principal payments--mostly short term and medium term maturities. As time goes on, interest payments will become increasingly important. In the majority of debtor countries today, the early maturities are responsible for the heavy service flows (1, p. 117).

Table V shows the proportions of public debt outstanding at the end of 1962, which is repayable over the three-year period 1963-1965 and over the five-year period 1963-1967. The data does not include

TABLE V

PER CENT OF DEBT INCURRED AS OF THE END OF 1962

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Latin America</td>
<td>36</td>
<td>55</td>
</tr>
<tr>
<td>South Asia and Middle East</td>
<td>19</td>
<td>32</td>
</tr>
<tr>
<td>East Asia</td>
<td>31</td>
<td>52</td>
</tr>
<tr>
<td>Africa</td>
<td>13</td>
<td>20</td>
</tr>
<tr>
<td>Southern Europe</td>
<td>41</td>
<td>65</td>
</tr>
</tbody>
</table>

Source: See Fig. 2
commercial arrears, obligations to the International Monetary Fund, and other similar obligations. Had this additional debt been added into the calculations, the percentages would have been much higher. For example, approximately 95% of Latin America's debt outstanding would be repayable during the 1963-1967 period (1, p. 117).

Conclusions

The developing countries are the major international borrowers of today. Any borrowing on conventional terms results in a return flow of interest and amortization in fairly rapid succession. In foreign borrowing, debt service payments are a charge on domestic real income and savings. To pay this, exports have to be expanded or more funds borrowed.

The inflow of capital fluctuates while debt service is contractually fixed. This causes dangerous situations for the developing countries (6, p. 100).

This study made no attempt to solve the debt servicing problems of the developing nations. It presented statistics and a framework within which the problems of debt service financing could be analyzed. Its purpose was to be a tool to help the developing countries choose the values they wish to impose on their economies. The problems are serious and the solutions will require the concerted effort of both lenders and borrowers.
Through consideration of their report, the UNCTAD delegates were given a view of the importance of concentrated cooperation. The purpose appeared to be to encourage the nations in UNCTAD to accept this and enter into cooperative negotiations. This in itself would have been a major significance of UNCTAD if it had succeeded.
CHAPTER BIBLIOGRAPHY

CHAPTER IV

TWO STUDIES REVIEWED BY THE THIRD COMMITTEE

The Third Committee looked at two other aspects of trade as a part of development: the formation of an International Trade Organization and Tourism. The first section of this chapter reviews the Soviet plan for an ITO.

The Soviet bloc tried to maintain their present position in world trade by delivering a proposal favoring both the developed and the developing economies. The Soviet bloc's ITO proposal was to provide permanent machinery for carrying on the ideals expressed at UNCTAD. This proposal voiced the developing economies' demand for a permanent institution to try to solve the world trade problem. However, the Soviet bloc also enlisted the industrialized economies support by calling for this ITO which had the industrialized nations represented in such a way so as to insure that no numerical majority of underdeveloped nations could exist in the ITO to pass measures objectionable to the industrialized economies (1, p. 15).

The promotion of Tourism also plays an important role in international development. This paper presented the benefits derived by a nation that attracted tourists. Due to the fact that the developed countries' citizens are prospering so, tourism offers an excellent opportunity for
an underdeveloped economy to receive capital inflow by developing its resources.

These two studies point to two entirely different areas of international development, but both are dependent on the willingness of the developed economies to cooperate. Both areas can benefit a developing economy only if the developed countries realize their responsibilities.

Formation of an International Trade Organization

This draft resolution was submitted by the delegations of Bulgaria, the Byelorussian Soviet Socialist Republic, the Czechoslovak Socialist Republic, the Hungarian People's Republic, the Polish People's Republic, the Ukrainian Soviet Socialist Republic, and the Union of Soviet Socialist Republics. The draft was a proposal to establish an International Trade Organization (ITO) within the framework of the United Nations. The organization was to deal with international trade problems with particular reference to the needs of development (2, p. 424).

The draft outlined a universal organization with sufficient authority to ensure compliance with its own recommendations and with those of the United Nations which relate to international trade and development. The organization was also to be open to any country and could deal with all questions of international trade. As a universal organization, it would have to be founded on principles acceptable to developed and underdeveloped countries. The different types of economic and social systems and the
different levels of development of the many countries would have to be considered. The purpose of the organization would be:

to do everything possible to promote the development of international trade as an instrument of economic and social development in the interests of all countries and peoples of the world, to promote the creation of conditions based on respect for the principles of equal rights and self-determination of peoples, and to ensure that all the countries of the world benefit from a rational international division of labour on the basis of equal rights (2, p. 424).

In order to accomplish its purpose, the organization would have to concern itself with many problems. The problems brought out in the report for special consideration were generally in accord with the demands of the developing countries. Such things as the elimination of price fluctuations, the elimination by the industrial countries of tariffs and other obstacles to trade, the easing of the terms for financing international trade, and the commercial and economic aspects of general and complete disarmament were studied (2, p. 425).

Until such an International Trade Organization could be established, the proposal called for the Conference on Trade and Development to be convened periodically to serve as the highest specialized agency to deal with international trade and development problems during the transitional stages. The functions of implementing the decisions of the Conference would be performed by the Executive Council of UNCTAD. The members of the Executive Council would be elected during the current session of UNCTAD, and would contain thirty-four out of
forty-five member countries (the membership was to consist primarily of the members of UNCTAD's General Committee). Each member would have one vote and decisions would be made on the basis of a majority of those voting (2, p. 426).

The Conference would meet once every two years to carry on the work of UNCTAD. The Conference would establish four committees to study trade and development problems. These committees would deal with commodity trade, trade in manufactures and semi-manufactures, general international trade problems, and questions of trade financing, invisibles, transit and transport.

To ensure the practical implementation of the decisions of the Conference and the Executive Council, a permanent secretariat would be established. It would be headed by a Director-General who would be the Secretary-General of the Conference. He would be assisted by Deputy Directors-General and a secretariat staff that would be selected from the three groups of states (2, p. 427).

The USSR on February 5, 1964, sent a memorandum to the Secretary-General of UNCTAD reviewing its proposal and submitting it as an official document of the Economic and Social Council. The memo was intended to reinforce Russia's participation in establishing an International Trade Organization (2, p. 428).

Promotion of Tourism

This study was based on a report "Tourism as a Factor in
Economic Development--Role and Importance of International Tourism" by the late Professor K. Krapf of the University of Berne. The following is a summary of the relevant portions of that study (2, p. 333).

"International tourist expenditures, currently (1964) amounting to about $8 billion a year, are the largest single item in world trade and are growing markedly as income levels rise" (2, p. 33). Although these expenditures presently are for the most part in the developed countries, it is recognized that their growth and size afford opportunities to many developing countries for improving their balance of payments positions and promoting the growth of new domestic industries. The developing countries could use foreign financial aid to take advantage of tourism by increasing investments in this area. This foreign aid would be of the greatest help in financing the long run development of tourism in the localities that require substantial investment in transportation facilities and buildings which cannot be readily financed from domestic sources. Foreign help could also come in the form of experienced personnel to develop tourism as an industry (2, p. 33).

It is essential for any country aiming at increasing the flow of foreign tourists into its country to allow tourists to cross its frontiers easily. Visas should either be abolished or granted with a minimum of formalities and customs regulations should be simplified. Also, the wealthier industrialized countries from which most tourists come must reduce the effort in securing passports. Other suggestions to increase
the ease of tourism were for the developed nations to hold and make available adequate currency of the developing countries, for taxes and fees levied on tourists to be reduced or abolished, and for the formalities regarding motor vehicles, aircraft, and pleasure boats to be minimized (2, p. 333).

The Conference on International Travel and Tourism (a conference held August-September, 1963, in Geneva) attempted to put these principles into practice by affirming the ideal that everyone has the right of freedom of movement, including freedom of transit, expressed in the Universal Declaration of Human Rights. To achieve this, this Conference established guidelines for the governmental regulation of passports, visas, police registration, arrival and departure formalities, frontier checks, income-tax clearance, stop-overs, direct transit, customs, the application of health formalities, and the facilitation of travel by persons engaged in educational, scientific, cultural, and sporting activities. In addition, it recommended the adoption of liberal currency allowances for travel (2, p. 333).

Tourism occupies an important place in the balance of payments and is a potential force in stimulating international trade and thereby helping to extend and intensify international exchange. It can also help reduce the debts of developing countries. For example, in Mexico and Spain in 1961, tourism made up for the deficit of the exports and imports and produced a small surplus. Other countries' deficits were
also reduced. In Italy, the surplus of the tourist balance was 82.63 per cent of the deficit of the balance of trade; in Austria, 80.44 per cent; in Haiti, 25.58 per cent; and in Thailand, 20.00 per cent. In some other countries, tourism was responsible for aggravating the balance deficit. Canada's tourist deficit was 76.55 per cent of the deficit of the balance of trade (2, p. 333).

Money spent by tourists has a multiplier effect which helps stimulate the economy. The United States made a study of tourism in the Pacific Islands and the Far East. They found that the tourist multiplier, or average turnover per dollar, was between 3.2 and 3.5 for that region. Other studies estimated that the tourist multiplier in highly-developed countries was over 5.5 (2, p. 335).

The special function of tourism in the developing countries is to exploit some economic characteristic, such as beautiful natural resources, a pleasant climate and exotic charm, and low prices of food, beverages, souvenirs and services. Tourism tries to attract foreign expenditure and provide currency needed to finance imports. Another advantage to the developing countries in building up their tourist industry from the beginning is that as they do so along modern lines, they are seeking solutions to development problems without having to take account of vested interests.

Besides using tourism to obtain foreign exchange, developing countries should consider it as a means of developing new industries
and services. The tourist industry would not only provide property 
and employment in suitable areas but would also serve as a basis for 
growth of consumer trades. This would also bring about more employ-
ment. The long term prospects for tourism are promising. In greatly 
underdeveloped areas, tourism could become the principal activity and 
source of income (2, p. 336).

The need for planning is very important. Besides the means of 
transportation, the means of accomodation are among the most impor-
tant factors in the development of tourism. Installations should be made 
for small numbers of tourists at the beginning.

Promotional activities are also very important. The national 
tourist organizations should be granted the authority and resources 
necessary for them to take effective action. To the extent permitted 
by the economic resources of the country, there should be a steady 
growth in the number of tourist resorts. The developing countries 
should protect existing tourist attractions and concentrate their efforts 
and financial resources on a few proven attractions before trying 
unproved projects (2, p. 336).

The Conference on Travel and Tourism made some suggestions 
to help the developing countries build their tourist industries. Among 
the suggestions were establishing a program of education on the value 
of tourism, banning the export of antiquities and art treasures, giving 
wide circulation to a calendar of events in the country, maintaining
high standards of sanitation and hygiene, and using the national tourist office to promote tourism by advertising, publicity of all kinds and public relations (6, p. 336).

The Conference also suggested that the Governments provide technical and financial assistance for the promotion of tourism. Government educational and technical advisory programs plus the adoption of special fiscal, financial, and customs measures in favor of the hotel and catering industries would be helpful. Public land on which to build for tourist purposes could be made available on reasonable terms (2, p. 337).

In some areas, tourism campaigns should be carried out on a regional basis. This would necessarily require the cooperation of several governments. This type of cooperation is particularly necessary in areas far away from the major countries from which tourists originate. The countries could combine to train personnel for hotels, tourist offices, travel agencies, etc. (2, p. 338).
CHAPTER BIBLIOGRAPHY


CHAPTER V
OCEAN SHIPPING AND DEVELOPMENT

The information contained in this report was assembled and analyzed by the Economist Intelligence Unit (EIU). It was submitted in a preliminary form to Jules DeKock of the Economic Commission for Latin America. DeKock made his conclusions and submitted the report to the United Nations Conference on Trade and Development. Because of the lack of time and informational records available, only a few countries were selected for this study. The criteria for selection were that those countries selected gave a cross-sectional view of the commodities important to developing countries' trade. The report omitted views by the developed or developing countries. DeKock's summary and conclusion attempts to overcome this. Therefore, the reporting of this paper will concern itself with the conclusions and summary by DeKock, using factual data from the report to substantiate his conclusions.

Basic Principles of Ocean Shipping

Tramp shipping does not adhere to fixed sailing schedules; it is free to sail any route and does not charge fixed rates. The world freight market for tramp shipping is in general a single free market with the center at London. The shipowners and cargo interests meet
on the Baltic Exchange and strike bargains as to the freight to be paid according to the state of supply and demand. Under a voyage charter, the rate is fixed and the exporter usually pays no other charges. It is also possible to charter for consecutive voyages and for the lifting of specific tonnage. If freight rates are rising, this practice is of special importance to shippers (2, p. 276).

Tramps also hire out on time charters. The hirer pays no freight in relation to tonnage carried or the distance covered, but pays a rate of hire per ton of carrying capacity. The hirer must pay for the full capacity regardless of whether or not he intends to use it. He may send his ships out empty or load any materials not specifically objected to when the contract was signed. The hirer is also free to use any shipping route not excluded by the contract (2, p. 215).

Open market freights tend to follow a "boom and bust" cycle and are particularly sensitive to political events. Rising demand in one commodity or one sea route often sets off a general upwards spiral. Fearing a shortage of ships, importers begin booking cargo space in advance which causes rates to rise. Contracts and time charters are made at high rates for periods up to five years. When over-capacity is reached, charters are defaulted on and hard times come to the tramp freight business (2, p. 217).

Open market tramp operations charter a great bulk of their products in thirteen basic commodities: grain and seeds, ores, coal
and coke, sugar, metals/scrap, timber and wood products, fertilizers, phosphates, pyrites, sulphur, copra, cement, and esporto. Approximately 90 per cent of transported petroleum is by directly owned tanker fleets of the large oil companies or by tankers hired by them on long-term basis (2, p. 276).

Liner operations are significantly different. The liner owner is bound to service specific routes on advertised dates. This means that at times he must sail without a full cargo. The operational costs are higher than for tramps due to high technical standards and the necessity to maintain a full crew at all times. The cargo is general in nature. The liner companies form shipping conferences which fix conference tariff rates to be applied to all member lines, allot to each member a number of "sailings" per year, and sometimes include tariff sharing arrangements. Because of the conferences, there is no bargaining over rates. However, the rates are much less subject to fluctuation (6, p. 276).

In the decade from 1951 to 1961 dry-cargo movements doubled. The average size of ships, their efficiency, and new forms of freighting plus a decrease in tramp shipping was responsible. The pattern of development in oil transport of specialized carriers either owned by the companies or hired for long periods, had been copied, particularly in the shipment of ores (2, p. 227).
Impact and Incidence of Freight Rates

The main indications of available statistics are that the incidence of freight charges on the f.o.b. value of exports varies between 3 and 8 per cent for countries exporting the lighter, high volume primary commodities. For the countries exporting heavy bulk commodities, the incidence of freight charges can be as high as 20 per cent (2, p. 277). Table VI gives some indication of the size of the charges involved.

Information is more readily available for the incidence of freight charges on imports. The International Monetary Fund (IMF) estimates a range of incidence of between 4.6 per cent and 13 per cent in 1961. There was little change shown over a five-year period. The incidence of freight costs must be generally expected to vary with distance from suppliers (2, p. 224).

For developing countries as a whole, the incidence of freight charges on their international trade was considerable.

Total imports and exports (f.o.b.) of developing countries, for which IMF data were available amounted in 1961 to $23,626 and $22,944 million respectively. Total freight charges on imports . . . amounted to $2327 million and total freight charges on exports may be estimated at $2750 million (2, p. 277).

A rough estimate of all developing countries would show that total freight charges on their trade would be close to $600,000 million in 1961 (2, p. 225).
### TABLE VI

FREIGHT CHARGES AS A PERCENTAGE OF THE F. O. B. VALUE OF EXPORTS FROM SEVEN DEVELOPING COUNTRIES

<table>
<thead>
<tr>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Brazil&lt;sup&gt;a&lt;/sup&gt;</td>
<td>4.5</td>
<td>5.7</td>
<td>5.5</td>
<td>5.7</td>
<td>5.9</td>
</tr>
<tr>
<td>Ceylon&lt;sup&gt;b&lt;/sup&gt;</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>5.3</td>
<td>5.5</td>
</tr>
<tr>
<td>Liberia&lt;sup&gt;c&lt;/sup&gt;</td>
<td>16.1</td>
<td>16.4</td>
<td>15.3</td>
<td>18.5</td>
<td>19.0</td>
</tr>
<tr>
<td>Malaya&lt;sup&gt;d&lt;/sup&gt;</td>
<td>4.9</td>
<td>4.2</td>
<td>3.7</td>
<td>4.9</td>
<td>5.8</td>
</tr>
<tr>
<td>Mauritius&lt;sup&gt;e&lt;/sup&gt;</td>
<td>7.5</td>
<td>7.6</td>
<td>7.1</td>
<td>7.5</td>
<td>7.5</td>
</tr>
<tr>
<td>Morocco&lt;sup&gt;f&lt;/sup&gt;</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>23.0</td>
</tr>
<tr>
<td>Sudan&lt;sup&gt;g&lt;/sup&gt;</td>
<td>3.2</td>
<td>4.0</td>
<td>4.1</td>
<td>3.0</td>
<td>-</td>
</tr>
</tbody>
</table>

- No available data
- Coffee only; over 50 per cent of the value of total exports.
- Tea only; over 60 per cent of the value of total exports.
- Iron ore and rubber only; 80 per cent of the value of total exports.
- Rubber only; over 50 per cent of the value of total exports.
- Sugar only; 95 per cent of the value of total exports.
- Phosphates, citrus fruits, other foodstuffs, other ores, and miscellaneous animal or vegetable products; 90 per cent of the value of total exports.
- Cotton, ground nuts, sesame, gum and dura; 90 per cent of total exports.

Source: Freight Investigation Bureau, Bombay, Government of India, October 15, 1963
The Development of Merchant Marines

World merchant shipping has increased by 54 per cent in the ten years 1952-1962, while during the same period of time the merchants' fleets of developing countries expanded by 73 per cent. The growth of the total world merchant marine trade during the period 1957-1962 was 27 per cent, while the underdeveloped world's merchant fleet increased by about 51 per cent. Despite this increase in their fleet, the tonnage shipped by the developing countries hardly increased (5.06 per cent in 1952 to 5.69 per cent in 1962) (2, p. 235).

The establishment of the national merchant marines has been promoted by developing countries on various grounds. In several respects their motives are the same as those which promoted developed countries to develop their merchant marines in the past.

For instance, perhaps the primary reason for establishing national merchant marines was for economic independence and security, or national defense. Countries whose national economies are heavily dependent on regular maritime services have developed their merchant marines so that their dependence on foreign shipping in times of war or other emergencies will be lessened (2, p. 235).

The governments of developing countries have taken direct action to promote the merchant marines. They have used legislation and participation in existing companies in order to establish their own fleet.

National merchant marines have also been encouraged to develop through
such techniques as "flag waving." This includes all measures adopted by developing governments of which the direct or indirect effect is to bestow upon or grant a preferential treatment to ships of the national flag as compared with foreign-flag ships (2, p. 241).

Subsidies have also been used to promote merchant marines. These subsidies take many forms; direct or indirect grants, inflated shipping payments, state-owned fleets, and tax-reductions and other fiscal privileges are examples (2, p. 243).

The techniques were learned by the developing countries from the developed countries which still practice them. They are primarily devices for the promotion and protection of the merchant marines in much the same way as tariffs are used to protect domestic industries.

Data on freight payments in the balance of payments indicate that the further expansion of the developing countries merchant marines offer advantages. The merchant marine helps a growing economy through substitution of imports and the increase of exports of transport services. There were no data available, however, for the adequate determination of profitability or costs of developing a merchant marine service (2, p. 279).

Measures to Reduce Costs in Ocean Shipping

Generally, transport costs make only a relatively small proportion of the delivered prices of goods entering international trade. Freight rates themselves are but one part of total transport costs.
The costs incurred on imports should receive most reduction attention. Port expenses and costs related to cargo handling make up an increasing proportion of total operating costs. The high incidence of ship costs while in port are due to port dues, pilotage and towage charge, plus the high cost of turn around service. It has been estimated that some 60 per cent of a cargo liner's year is spent in port either waiting to berth or actually alongside being loaded or unloaded (2, p. 259).

In considering the general problem of reducing the incidence of costs of ship congestion arising in ports of developing countries, the basic problem is ensuring that the growing and changing needs of traffic using the ports are met. A developing country may wait until the need for expansion arises or expand in anticipation of demand. Either way, the use of foreign capital assistance will be necessary.

The numerous calls on limited capital funds, inadequate facilities for forecasting future port traffic as well as general uncertainty as to future port needs, all tend to make even go-ahead port managements in developing countries wait for definite evidence of the need for extended or improved port facilities before taking any action (2, p. 281).

The method of financing improvements in port infrastructure varies from country to country and often from port to port within a country. The users usually bear the long-run costs; sometimes it is the State that bears the incidence of the capital charges involved (2, p. 281).
The lack of adequately trained personnel for the ports, both managerial and administrative, also leads to greater costs. The United Nations technical assistance organizations could help improve the knowledge and practice of port operation. The improvement of cargo handling techniques and better training in this area would also reduce port costs (2, p. 262).

Conclusion

DeKock's conclusions were in the form of recommendations as to what should be done to solve the different problems confronting ocean shipping in the developing countries. However UNCTAD's final Act only called for inter-governmental procedures (the establishing of committees) to be used in studying this problem (1, p. 13). DeKock's proposals were put aside until further studies were made. This seems to be the basic pattern of what happened to proposals at UNCTAD. Because this was the first time any such Conference had been held, the procedure for handling specific proposals had not been worked out. Therefore, most suggestions were pigeon-holed until the next Conference. This gave UNCTAD the opportunity to re-examine the proposals whenever the need arose.

Ocean shipping was shown to be a problem of increasing importance to the developing economies. Some definite action must be taken in the near future or the export capacity of the poor nations will suffer a decline. The importance of this area to development can be seen by the
fact that without exports, a developing economy cannot pay its debt servicing burden, accumulate any capital inflow, or hope to successfully engage in international trade. This topic receiving the attention it did is evidence of its growing relevance to the whole problem of development.
CHAPTER BIBLIOGRAPHY


CHAPTER VI
FINANCING AN EXPANSION OF INTERNATIONAL TRADE

Although developed countries have increased their contributions to the developing economies from $2.6 billion to $6 billion over the period 1951-1955 to 1960-1962 (3, p. 3), the need of the developing countries for foreign capital was of major importance at UNCTAD. Foreign capital was needed to make up for the low levels of domestic saving of the underdeveloped countries. Also, foreign capital was needed so the developing countries could take advantage of native export industries and in the expansion and modernization of existing productive facilities. The long run goals of a developing country would probably cause some disruptions in the short run trade patterns. Therefore, foreign capital would be needed to subsidize this loss. Consequently, foreign capital has been one of the main financing tools of the developing countries.

Trends in the Flow of Long-Term External Finance to the Developing Countries

As stated above, the amount of foreign capital contributed to the developing countries has increased; but the trends have changed. Table VII shows that the composition of these contributions has changed. Private capital has played a minor role in developing economies' financing since
### TABLE VII

**NET FLOW* OF LONG-TERM CAPITAL, AND OFFICIAL DONATIONS FROM DEVELOPED MARKET ECONOMIES AND MULTILATERAL AGENCIES TO DEVELOPING COUNTRIES**

(In billions of dollars)

<table>
<thead>
<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td><strong>Total</strong></td>
<td>-2.6</td>
<td>-4.7</td>
<td>-6.0</td>
</tr>
<tr>
<td><strong>Bilateral Flow</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>-2.5</td>
<td>-4.5</td>
<td>-5.7</td>
</tr>
<tr>
<td>Private capital</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Recorded reinvested earnings of affiliates of foreign enterprises</td>
<td>(-0.4)</td>
<td>(-0.5)</td>
<td>(-0.5)</td>
</tr>
<tr>
<td>Official donations</td>
<td>-1.1</td>
<td>-2.1</td>
<td>-2.6</td>
</tr>
<tr>
<td>Official capital</td>
<td>-0.8</td>
<td>-1.0</td>
<td>-1.9</td>
</tr>
<tr>
<td>Total official of which:</td>
<td>-1.9</td>
<td>-3.1</td>
<td>-4.5</td>
</tr>
<tr>
<td>United States Agricultural surplus sales</td>
<td></td>
<td>-0.6</td>
<td>-0.9</td>
</tr>
<tr>
<td>Flow from multilateral lending agencies</td>
<td>-0.1</td>
<td>-0.2</td>
<td>-0.3</td>
</tr>
</tbody>
</table>


*Net flow* refers to the balance of all payments and all receipts of long-term official and private capital.

**Minus signs indicate net outflow of funds from developed markets.
the mid-1950's. Also, the trend seemed to be in more loans instead of direct contributions to the underdeveloped countries, accompanied by more funds being supplied by multilateral agencies (3, p. 6).

The increased amount of flow of official resources to the developing countries reflects an increase in official donations from the major donor nations. Table VIII shows the net official flow to the developing nations from the major donors. Careful examination will reveal that the United Kingdom and France, even though increasing their contributions, have failed to keep pace with the other countries and that the combined share of donors other than the U. S. has not increased since the period 1950-1955.

The increase in loans was accompanied by an easing of terms and the proportion of loans payable in local currencies increased over the twenty-year period. The U. S. also showed a trend to shift to longer term financing. These conditions made more money available at cheaper rates with a longer period of time to pay (3, p. 7).

The flow of private capital to the underdeveloped countries was comprised of three categories of transactions: direct investment, security issues in the capital markets of the developing countries and lending operations. Direct investment was the predominant form, and in recent years a relatively large proportion has been financed through the reinvestment of profits. Public issues in the capital markets of Western Europe and the United States were formerly an important source of
TABLE VIII

NET OFFICIAL FLOW FROM NORTH AMERICA, WESTERN EUROPE AND JAPAN AND FROM MULTILATERAL AGENCIES TO DEVELOPING COUNTRIES

(In percentages of total outflow)

<table>
<thead>
<tr>
<th></th>
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</thead>
<tbody>
<tr>
<td>United States</td>
<td>54</td>
<td>55</td>
<td>57</td>
</tr>
<tr>
<td>France</td>
<td>(24)</td>
<td>20</td>
<td>16</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>9</td>
<td>6</td>
<td>7</td>
</tr>
<tr>
<td>Germany (Republic of)</td>
<td>2</td>
<td>4</td>
<td>6</td>
</tr>
<tr>
<td>Italy</td>
<td>2</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>Japan</td>
<td>1</td>
<td>4</td>
<td>3</td>
</tr>
<tr>
<td>Other countries</td>
<td>(2)</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>Multilateral agencies</td>
<td>5</td>
<td>6</td>
<td>6</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100</strong></td>
<td><strong>100</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>


*Estimate based on incomplete data.
foreign funds for many of the larger developing countries, but played only a minor role after 1945. Additionally, the developed countries contributed substantial sums to multilateral lending institutions and to the technical assistance and relief activities of the United Nations and its specialized agencies. The International Bank for Reconstruction and Development (IBRD) has been the main agency. With the establishment of new agencies, the amount of development capital has been increasing. Capital was supplied by the multilateral agencies on terms which ranged from the equivalent of the agency's own borrowing cost plus a commission (the IBRD loans and part of the loans granted by the Inter-American Development Bank [IDB]), to loans charging three-fourths of one per cent interest (as by the International Development Association [IDA]), down to the simple donations of the European Development Fund of the European Economic Community (EEC) (3, p. 9).

The Distribution of Flows to the Developing Countries

The distribution of the United Nations funds was another reason for concern at UNCTAD. In 1960-1962, one-third of the net flow of long term funds from all sources was directed to the developing countries of the Far East, a little less than one-third to Africa, one-fifth to Latin America, and the rest to western Asia (3, p. 9). Table IX shows the breakdown of fund-receiving nations.
The regional distribution of fund flows shows to have shifted since 1956-1959 in favor of the Far East at the expense of Latin America. The Far East received a higher proportion of the rising volume of official loans accompanied by an increase in private capital flows. Latin America's proportion declined because of its dependence on private capital as its primary source of funds. As private capital flows have decreased, Latin America's share of funds has consequently decreased. This was accompanied by a shift in private capital flows to the Far East and West Asia. The result of these shifts was to have fifteen countries receiving three-fourths of the total flow of long-term funds and far more than the net receipts of private long-term capital of the developing countries as a group (3, p. 10).

Besides being unevenly distributed among the recipients, long-term funds to individual countries were subject to year-to-year fluctuation. These fluctuations were due to two factors: the instability of flows of private capital from the developed capital exporting countries' and the discontinuous character of financing operations of the public sector. Official aid programs are under the separate donor countries legislatures and may experience wide fluctuations. Furthermore, the practice of tying assistance to specific projects tends to give rise to variations in annual disbursements. This is significant because many donor countries give preference to larger projects involving large imports of equipment when granting loans (3, p. 11).
<table>
<thead>
<tr>
<th>Period and Region</th>
<th>Population</th>
<th>Not Long-Term Capital and Official Donations</th>
<th>Long-Term Capital</th>
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<tr>
<td></td>
<td></td>
<td>Total</td>
<td>Official Donations</td>
</tr>
<tr>
<td>1956-1959</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total, developing countries</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Africa</td>
<td>18</td>
<td>20</td>
<td>34</td>
</tr>
<tr>
<td>Latin America</td>
<td>16</td>
<td>30</td>
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<td>West Asia</td>
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<td>10</td>
<td>11</td>
</tr>
<tr>
<td>Far East</td>
<td>62</td>
<td>51</td>
<td>46</td>
</tr>
<tr>
<td>1960-1962</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Total, developing countries</td>
<td>100</td>
<td>100</td>
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</tr>
<tr>
<td>Africa</td>
<td>19</td>
<td>32</td>
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</tr>
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<td>Latin America</td>
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<td>West Asia</td>
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</tr>
<tr>
<td>Far East</td>
<td>62</td>
<td>37</td>
<td>38</td>
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</tbody>
</table>

Source: See Table VII
Export Receipts

Export receipts were an area of concern at the Conference. The growth of such receipts were slowed because of declines in prices of many major export commodities. In addition to losses of external purchasing power resulting from the unfavorable course of export prices, the capacity of the developing countries to finance imports has also been diminished by increases in import prices (3, p. 11).

The deterioration in trade terms was greater for the Latin American countries than the other developing countries, and its impact on external purchasing power was much larger. Although this region accounted for only one-third of the export receipts of the developing countries, its terms-of-trade loss was equivalent to three-fourths of the loss incurred by all developing regions. The inflow of capital and official donations was not able to compensate for the loss. Viewed in this light, "it is clear that, if the recent trends in the terms of trade were to continue, the additional aid contribution, which would be required to maintain at all times the external purchasing power of the developing countries, would have to be indeed large, in relation to the present flow of aid" (3, p. 13).

The recipients of foreign capital, though helped, were undergoing a substantial cost. This cost was in the form of increases in the external debt and debt service payments which placed an increasing burden on their foreign exchange resources. "Net interest and dividend
payments by the developing countries . . . were approximately $0.9 billion larger in 1960-1962 than in 1951-1955" (3, p. 13). The proportion of export receipts required to transfer such income payments also increased from 10 per cent to 13 per cent. The ratio of dividend and interest payments to the exports of those developing countries that had no petroleum exports increased more sharply than average (3, p. 14).

The Flow of Long-Term Funds in Relation to Development Targets and the Recipients' Needs

The General Assembly in resolution 1522 (XV), set as a target for the transfer of resources to the developing countries 1 per cent of the combined gross domestic product of the economically advanced countries. The size of individual contributions was not to be uniform. Some of the smaller donor countries gave as little as 0.1 per cent of their gross domestic product while others, such as France, gave 1.5 per cent (3, p. 15).

The share of resources transferred to the underdeveloped countries reached a peak in 1961. Official aid and private capital flows fell off slightly in 1962 while the domestic product of the donor countries increased on the average of 5 per cent. Therefore, the ratio of net contributions to gross domestic product has fallen. This decline
has been the consequence of a growing lag between commitments and disbursements.

According to data published by the Organization for Economic Co-operation and Development, the combined aid commitments of the United States and eight other donor countries and multilateral agencies exceeded gross disbursements by over $1.9 billion in 1961 and by $2.3 billion in 1962 (3, p. 15).

The new bilateral commitments increased by little more than 3 per cent from 1961 to 1962, while commitments of multilateral agencies leveled off. The result of these actions is that disbursements can be expected to accelerate in the future because of the earlier commitments, but once these commitments are met, the expansion of aid may slow down unless there is a rise in new commitments.

Aid Policies, Institutions and Procedures

Institutional Framework

Most developed countries have had aid programs of one form or another for some time. Therefore the institutional machinery used to administer these programs is generally of long standing. In a number of instances, aid has been given to countries that have strong political or military ties with the donors; and such aid has usually been administered by various governmental departments. Some developed countries have also provided loans to countries with which they have no special links through official export financing agencies, such as the Export-Import Bank of the United States. These agencies have usually come into
being at different times to serve different purposes. Efforts have been made to adapt these agencies to modern needs. Despite this, there is one serious defect which is "fragmentation of responsibility for the administration of aid programs among several government agencies or departments" (3, p. 19).

The volume of aid operations has grown and, as the idea of development aid to the underdeveloped countries was accepted, the weakness of the existing institutional framework became more apparent. Governments have tried to coordinate and centralize aid machinery, but progress has been slow. For example, the United States, where the Agency for International Development (AID) was established in 1961 for the explicit purpose of administering bilateral aid, centralization is still incomplete. In France and the United Kingdom the administration of bilateral assistance programs is still divided between the ministries of external affairs, the departments responsible for dependent territories and assorted countries and other agencies (3, p. 19).

Bilateral aid programs are usually financed through the national budgets of donor countries and the level of aid is determined annually. The need to seek annual legislative authority for the aid programs is cumbersome and slow. Long-term programs are limited due to the unknown circumstances of the future.

In order to overcome this difficulty, some governments have been granted authority to make multi-year aid commitments. For
example, the Federal Republic of Germany can make legally binding advance commitments to individual recipients over a period of several years. France has adopted a three-year financing program for overseas departments and territories and has begun to maintain a specified level of aid to Algeria. Assistance is also available through permanent lending agencies whose funds are provided by several donor countries and do not depend on annual budgetary appropriations, but the terms are less favorable. For this reason many developing countries are reluctant to use these agencies (3, p. 19).

Accompanying this attempt to improve the domestic lending machinery in the developed countries, there has been some development in the international field. Several new multilateral agencies have been established. Joining the IBRD and the IFC are the United States Special Fund, the International Development Association, the World Food Programme, the European Development Fund of the EEC, and the Inter-American Development Bank (3, p. 20).

Multilateral lending institutions usually take a longer term view in planning their loan operations than do bilateral assistance agencies. For agencies which are able to finance their loans through the capital market there is no problem of uncertainty regarding the future availability of funds. Agencies which operate on the basis of capital subscriptions that need to be periodically replenished have no assurance that the level of subscriptions will be maintained in later years. Thus, although
multilateral lending institutions have a somewhat longer time horizon than the bilateral agencies, both have problems that result in difficulties in long-term aid planning (3, p. 20).

**Criteria for Assistance Allocation**

There are many prerequisites which the developing countries must meet before receiving aid from the donor countries. Usually special political and economic ties determine the scope of assistance. Within this context, aid is given to the country that is most poverty stricken or that will benefit most from the aid. Some countries receive aid due to a special relationship with a developed country. Former territories and colonies are commonly given weighted consideration in matters of welfare aid. Other donors look to the short-run development impact of aid on an economy before granting aid. Also, a well developed plan of operation is required before any money is loaned. When a developing country asks aid of many industrialized countries, the donors use the development plan as a means of allocating funds from each country to the recipient. Another criterion for receiving aid is that projects in such fields as communication and power be given high priority. Also, donors restrict aid to industries of the import-substituting variety in order to alleviate the balance-of-payments position of the recipient country. The donor countries often have to take the initiative and encourage recipients to prepare more projects
for the export sector in the light of new export opportunities that may arise (3, p. 21). The prerequisites are designed to assist the developing countries in using their aid.

**Restrictions on Assistance**

Besides these prerequisites, developed countries also place restrictions on the use of their aid contributions. These restrictions fall into two broad categories: restrictions with respect to the purpose for which assistance may be used, and the limitation of aid-financed imports to procurements in the donor country. The two may be combined.

First, donor countries may restrict the use of aid contributions to the financing of specific projects or they may provide assistance for general developmental purposes. In either case, they limit their contributions to the financing of identifiable imports or they may provide foreign exchange resources to cover imports as well as local expenditures of a project. Specific project financing involves close cooperation between the donor and recipient country, its results can be readily identified and evaluated, and it facilitates the coordination of technical and financial assistance.

The recipient country is at some disadvantage in using aid from the specific project contributions, especially if its investment policy is based on an over-all plan. While some major projects can
be effectively carried out in isolation, there are many that require the execution of complementary or otherwise related projects in order to yield the best results. In such cases, the need to finance each project individually, possibly with more than one donor, makes timing and coordination a problem. Also when a project only covers the direct import requirements the recipient may have to find supplementary foreign exchange resources to meet the additional import requirements arising from the increased income generated by the domestic investment expenditure. Consequently, the practice of limiting project assistance to direct import requirements has tended to encourage the execution of projects with a relatively large import component at the expense of many equally important projects which involve relatively large local expenditures (3, p. 21).

Secondly, most donor countries restrict at least part of their bilateral aid contributions to purchases of their own products. Reasons given for applying such restrictions include balance-of-payments difficulties or the existence of idle capacity or unemployment in the donor country. Other factors causing aid tying are a desire to promote domestic exports and to compensate exporters for the loss of sales in traditional markets which may have resulted from procurement restrictions of other donor countries (3, p. 22).

The recipient countries are hurt economically by this type of restriction. The harm comes from the fact that such restrictions
reduce competition between potential suppliers and may render impossible the procurement of imports from the optimum source of supply. These restrictions involve not only higher costs, hence a larger loan to be serviced, but also the purchase of equipment manufactured in the donor country which may not fully meet the recipient's requirements. Also, the availability of aid may encourage the execution of those projects for which suitable equipment can be readily obtained in the donor country, even if the recipient's development plan did not assign the highest priority to such projects (3, p. 23).

It was estimated that in 1961, over two-fifths of bilateral aid contributions were formally tied. Realizing this and the harmful aspects of such restrictions, the major donor countries have to a large extent agreed that the practice should be discontinued as soon as the difficulties which have led to the introduction of such restrictions are eliminated (3, p. 23).

International Co-ordination of Aid

Due to the increasing number of aid programs, donor countries, and recipients of these loans, there has arisen a need for a co-ordinating body. Administrative resources in recipient countries are limited and the need to deal with each donor separately places a very considerable strain on these resources. Each application for funds usually involves a close examination of the developing countries' development plans, programs and resources and, if several donors are involved, there is duplication
of work and time. The co-ordination of the projects of several donors also makes heavy demands on the recipient's administrative personnel. Also, the lack of consistency in the criteria employed by donors in selecting projects and determining terms of aid may lead to wasted effort. For these reasons, the underdeveloped nations have urged that aid be channeled through a central co-ordinating agency (3, p. 24).

There have been two types of arrangements made to deal with the international co-ordination of aid. The first consists of efforts by the donor countries to harmonize national aid policies and practices. "The Development Assistance Committee (DAC) of the Organization for Economic Co-operation and Development, on which the major donor countries are represented, has been set up as the chief instrument for international co-ordination of aid policies" (3, p. 24). The DAC has provided a forum for the discussion of problems of common concern to aid donors. In the forum, donor countries are able to scrutinize each other's policies and to search jointly for acceptable solutions to critical issues. On the operational side, the DAC has established co-ordinating groups for some individual less developed countries. These groups have helped recipients in a variety of ways to insure that continued aid contributions are related to their overall needs and capacities (3, p. 24).

Secondly, donor countries have co-ordinated some of their aid contributions under the so-called consortia in which several donors
co-operate in the financing of a particular project or program in an individual recipient country. These groups jointly examine the financial requirements and plans of recipients then seek to meet them under their separate aid programs. There is no formal machinery for centralizing contributions and each donor member negotiates the terms of his contribution directly with the recipient. Consortium financing began as an ad hoc arrangement to consider the provision of additional resources for India's development plan during a severe balance-of-payments crisis. A second consortium was set up for Pakistan. These two (under the IBRD) have been joined by two under the OECD. The experiences of consortia have demonstrated the benefits of joint examination of the recipient's development plan and policies. This has enabled the donor to allocate his contributions in such a way as to join with other donors in meeting the recipient's overall needs. (3, p. 25).

Although efforts undertaken by the DAC and other international organizations have produced tangible results, the international co-ordination of external assistance is far from being completed.

A common approach on criteria in methods, collaboration in the study of recipient's plans and policies, the establishment of more consistent terms and conditions and joint action with a view to liberalizing procurement procedures would contribute towards increasing the effectiveness of the aid effort (3, p. 25).
Measures to Increase the Flow of External Finance and to Improve its Terms

Aid makes demands on government budgets and domestic output in donor countries and it is a potential charge on their balance of payments. As long as this aid came from idle resources the donor countries were unaffected. However, in the last few years the industrialized countries have been operating at close to full employment and the impact of foreign aid on domestic economies is no longer minimal. Therefore any further increase in aid would result in a greater impact on domestic consumption and/or investment. Also, several donor countries have begun to experience balance-of-payments difficulties recently causing them to become cautious when granting new aid appropriations.

Because of these recent trends, there is a need to find new ways to increase aid. The need for action to accelerate the flow will be greater if a scheme for the compensation of losses of donor countries resulting from long term deterioration of terms of trade is initiated. Various proposals have been put forward for the utilization of surpluses for development aid. The World Food Programme established under the General Assembly Resolution 1714 (XVI) is one effort to utilize food surpluses for economic development. In this plan both developed and underdeveloped countries participated as donors (3, p. 27).

The United Kingdom initiated a program in 1962 for the utilization of idle capacity. The plan was to make available loans for development
from those specified British industries which possessed idle capacity. Despite the fact that these contributions were tied to exports, they might make a valuable contribution to development financing, especially since it would permit greater flexibility.

If military expenditures were cut world-wide, the amount of expenditures left over would provide development loans. For example, military budget expenditures of the major donor countries in 1957-1959 were within the range of 4 to 10 per cent of their gross national products. If only 10 per cent of budgetary defense expenditures was transferred to economic aid, there would be more than a doubling of the present flow of aid to developing countries (3, p. 27).

Development aid has only recently been accepted as a feature of international economic relations. The above programs have helped the donor countries to accept this new role while at the same time effectively assisting the growth of the developing economies.

The Problem of the Debt Service Burden of Developing Countries

An estimate of the IBRD showed that the outstanding external public debt and publicly guaranteed debt of developing countries totaled over $24 billion at the end of 1962 of which $17 billion had actually been disbursed. The servicing of that debt involved annual payments of approximately $900 million for interest and $2.1 billion because of amortization. The
total "debt service burden" of $3.0 billion was equivalent to over 10 per cent of export receipts in 1962. Developing countries additionally had to make provisions for the financing of income payments on private direct foreign investment. For the developing countries as a whole, payments of direct foreign investment income (including reinvested earnings) were twice as large as interest payments in 1961, and for some regions (Latin America) they were much larger. Such equity income is variable and since a great proportion of direct foreign investment is in export industries, income tends to vary with export receipts. Latin America is the only region where adequate statistics have been kept. This data verifies the IBRD’s findings. In all but two years between 1951 and 1960, changes in direct foreign investment income were in the same direction as those in export receipts. On the other hand, payments of other income, primarily interest payments, rose without interruption as the external fixed interest debt increased. The conclusion of this report was that

If the proportion of foreign direct investment flowing into sectors catering to the domestic market increases, the link between export receipts and dividend transfers may become weaker and the burden of transferring such income may increase considerably more than in the past decade (3, p. 28).

In years to come the burden of servicing public and publicly guaranteed debt will certainly increase. The rate of disbursements of long term loans have frequently been granted grace periods up to
five years. The flow of repayments will then increase as these grace periods come to an end. A number of developing countries have relied on short term credits to finance imports in the last few years, and for these countries debt repayment is expected to rise sharply in the next five years. Another IBRD survey showed that thirteen developing countries, which account for almost half of the total outstanding debt, will be repaying over the next five years two-fifths or more of their public external debt. In addition to the long term debt (debt repayable over periods exceeding one year) the developing countries have large outstanding short term liabilities which must be settled within a year (3, p. 29).

The problem of easing the burden of servicing external debt is complex. Both short and long term debt burdens must be relieved. A lengthening of grace periods to give the developing countries a chance to "catch their breath" during which old debts may be repaid is one suggested remedy. This action accompanied by a reduction in interest rates plus lengthening maturity dates will improve the composition and reduce the average annual servicing cost of the public debt (3, p. 29).

International Compensatory Financing

The terms of trade of developing countries reflect that exports consist, for the most part, of primary commodities. Most imports of developing countries are manufactured goods. The prices of primary
commodities are far more subject to change than those of manufactured goods so that the relationship between the two shows sharp short-term fluctuations as well as considerable long-term changes. Because most underdeveloped countries generally depend to a high degree on a small number of primary commodities for the bulk of their earnings, any price fluctuation tends to become more pronounced for any single underdeveloped country. Facing a relatively inelastic demand and increasing competition from domestic production in the main consuming countries and subject to a rate of growth in final consumption lower than that of most other components of the total product in the principal markets, primary commodities constitute a difficult field in which an exporting country can make balancing adjustments. The composition of the exports of most developing countries is too concentrated in a few commodities to permit marginal adjustments (3, p. 53).

**Considered Solutions**

To offset this, international action might consist of providing some form of *ex post facto* compensation. One type of compensation would be an insurance scheme. The insurance fund from which indemnities were paid would be built up from premium income. Because export prices do not always move in the same direction among the primary exporting countries, the system would not work unless there was adequate participation by countries in which the
The amount of compensation to be received by each exporting country would be determined after consideration of the effect that the deterioration has had on its investment...
resources and balance of payments, so that the country can receive whatever additional resources it needs to continue its economic development plan without disturbances (2, p. 61).

Whatever the method of building the fund, its success depends on the willingness of the countries to accept that method. The developed nations are the hub of the schemes because their contributions would undoubtedly sustain any fund. Without their full cooperation, any program could not obtain the necessary funds.

The above proposals were received by UNCTAD. It is significant to note that the only action was a recommendation for the United Nations, UNCTAD, and the nations of the world to study the problem of compensatory financing. After analysis of the problem and the proposed solutions, papers should again be submitted at a later meeting of UNCTAD (1, p. 54). This again demonstrates the influence of the industrialized nations at UNCTAD. No program of compensatory financing was possible without their acceptance. Realizing the reluctance of the developed countries to accept such a plan in 1964, the developing countries settled for the above recommendation, hoping that as time passed, the attitude of the developed countries would change.

Protection Against Risks in Export Finance

A complement to the introduction of measures for liberal export credit facilities is the provision of insurance against risks for export credit. In most industrialized countries, a well-developed
credit insurance system has become an integral part of the mechanism of export finance. This has been particularly true of the medium-term variety. Insurance has become a condition itself for receiving any accommodation in export finances. The terms of the insurance policy largely determine the nature and cost of credit granted. The premium charges are a cost item of export credit but they are usually less than the high compensation for risk that would otherwise be implicit in the interest cost of the credit (3, p. 41).

Export finance involves commercial risks and political and transfer risks. General political risks affect the whole country or export sector, where ordinary commercial risks relate to an individual transaction.

Commercial risks are those dealing with the probable default of the importer, which can occur even before the acceptance of the goods if the buyer refuses to accept delivery. This risk is not usually too great in the case of traditional exports. The most severe risks are those of non-payment after the acceptance of the good because of insolvency of the buyer, or protracted defaults on payments by him. The insurance institutions generally pay claims on the basis of protracted default although they may ask the exporter to share some of the costs (3, p. 41).

There is also another kind of export risk—called economic risk—which is connected with transfer risk, but may affect individual
transactions. For instance, if costs of production are on the increase and the exchange rate does not change to reflect the increase in domestic prices, and if the export contract quotes a firm price in a stable currency, then for some exports there will be a heavy loss (3, p. 41).

Political and transfer risks affect payments due all the exporters from the buyers of a given country because of delay or prevention of transfer of payments. This could arise from a shortage of foreign exchange, economic difficulties in the buyers' country, the imposition of import restrictions or embargoes or export prohibitions, or disasters of nature. A contract with a foreign government is also considered a political risk (3, p. 42).

In the case of political and transfer risks, it is a common rule to let the government play an active role even in the developing countries. Losses or financial strain of such large proportions involving risks of this kind are capable of being insured only with government backing. Commercial risks are insured mainly by private institutions.

In the developing countries, mechanisms for insurance of export credit risks have not developed to any large extent. In the few countries where they are available, they are limited mostly to short-term credit and almost always controlled or operated by the state.

As the developing countries expand their exports of manufactures,
including capital goods and consumer durables which have to be financed by medium or long-term export credits, the need for insurance systems will increase. Because of the amount of risk involved most private insurance companies will be unwilling to underwrite the risks. Consequently the state will have to cover both political and commercial risks (3, p. 42).

The growth of export-credit insurance in the developing countries can be very important. The backing of the national insurance agency improves the quality of the credit document, making international financing as well as national financing possible. "Further, with this support of the national insurance agency to the quality of export credit instruments in its portfolio, the international refinancing organ would find it much easier to mobilize the necessary financial resources" (3, p. 44).
CHAPTER BIBLIOGRAPHY


CHAPTER VII

DEVELOPMENT THROUGH PRIVATE DEVELOPMENT
FINANCE COMPANIES

Industrialization is one of the essential steps in achieving economic growth and development. The development of contracts and co-operation with foreign firms can be helpful in starting the process of industrialization and keeping abreast of new advances. However, only a few large-scale industries in developing countries can hope to attract foreign capital and management directly. The small and medium-size industries must depend on domestic finance.

In an attempt to increase the supply of available funds, managerial "know how," and capital equipment from the developed countries, most developing countries have established development banks. These are institutions which have the objective "of providing medium and long-term funds for productive investments and, usually, also technical advice needed to formulate and to carry out such investments," (2, p. 340). These banks may be privately or governmentally owned and can operate in either private or public sectors, or both sectors. The World Bank and IFC have helped promote the establishment of one type of development bank, the private development finance company.
The development finance companies which have been promoted by the World Bank and IFC are private or predominately private institutions designed to encourage industrial and other business principles which are conducive to sound economic growth in underdeveloped countries. These companies perform a valuable function by identifying promising fields for investment and helping to bring together the factors of production. They become an active part of a developing country and are able to help mobilize domestic savings and channel them into productive activities. They also can become the means through which foreign and international capital and skills can flow into the developing economy. This new capital can in turn be put into industries too small to attract foreign capital and technology directly.

Because they are themselves private, these finance companies have a unique role in helping the growth of the private sector, where problems of stimulating healthy growth are often particularly intractable (2, p. 340).

The principal aims of development finance companies are (a) to supply long-term capital, which will be particularly useful if part of it is in foreign capital; (b) to supply experienced management which possesses both a world-wide acquaintance with modern investment techniques and a knowledge of national conditions. Thus, the company will be providing men capable of objectively appraising market opportunities, market possibilities, and business risks. The company will also be of assistance to clients wishing to obtain technical and managerial aid; finally, (c) providing contracts with foreign
business and investment institutions and international financial and technical assistance agencies, which are indispensable in recreating outside capital and know-how (2, p. 341).

**Supplying Capital**

The organizers of a development finance company must plan the capital structure of the company in such a way that investors in its shares will feel that their capital is safe from erosion and that in the not too distant future they will begin to receive some return on their investment. This means that the company must generate a sufficiently high level of net earnings to be able to cover the cost of adequate management and staff, the building of adequate reserves, taxes, and as soon as possible a moderate return to stockholders. To do this, the company must realize that a part of its resources have to be obtained from borrowed funds, which can be lent at a higher rate than the company pays. Thus, "leverage" will be provided to enhance the return on equity. In practice, the difference between the interest rate which the company can charge its borrowers and the rate it must pay to its capital sources is not enough to establish the company soundly. Therefore most development finance companies have had to obtain special governmental assistance,

In the form of so-called "quasi-equity"--a long term loan (typically 30 years with a 15 year grace), interest-free or with a very low rate of interest, which will be subordinated to the share capital in case the company has to be dissolved (2, p. 341).
Preferential tax treatments and guarantees of foreign loans are other forms of government support. Some developing governments have entrusted their developing finance companies with the management of special public investment funds, for which a managing agency fee is paid (2, p. 342).

The investment policies of a development finance company are designed to aid development and make a profit. It has to appraise a project carefully to be able to ensure security as well as economic growth. Various factors have to be balanced. Thus, the requirements of a new enterprise might call for substantial equity capital. Most development finance companies are willing to make equity investments if they do not have to assume managerial responsibility. On the other hand, they would be unwise to hold in their portfolios equities amounting to more than their paid up capital and free reserves. The duration of loans must be long enough to allow easy repayment, but must be related to the duration of the finance company's borrowings (2, p. 342).

Supplying Management and Recreating Capital

The development finance company's role as a technical advisor and manager is one of its most important functions. The company's operational staff should be able to provide guidance to prospective clients in preparing their plans for establishing or expanding their business. If the company cannot provide the technical assistance called for, it should be able to put its clients in touch with experts familiar with their
problems. The company, in its capacity of providing capital and technical assistance, can screen projects so as to recommend those that will do most to further the economic growth of the developing country (2, p. 343).

Promotion of the capital market is of importance to a development finance company. This can be done by encouraging domestic investors to buy shares in the company, by the company selling from its own portfolio securities of enterprises that have passed initial difficulties and have become successful, and by the company's underwriting of public issues of shares of enterprises that it assists. The managements can encourage the flow of private savings into productive investment, too. Assistance to securities exchanges and advice to governments on the attractiveness of investment in certain productive enterprises are a few of the possible methods (2, p. 343).

Establishing a Finance Company

There must be three conditions present in a country before the World Bank or IFC would recommend the establishment of a development finance company. First, the development of a strong private sector must not be inconsistent with the nation's over all aims; i.e., it would be pointless to establish a private finance company in a country whose main goal was socialism. Second, there must be a need for medium and long-term loans. This implies that the company must have some managerial and entrepreneurial talent, a reasonably broad market, some natural resources and a fairly large volume of private
industrial and other productive investments which could go forward when financial assistance was made available. Finally, there must be a clearly defined gap in the capital market which this institution will be able to fill. If financial assistance is already available, no good would come of the establishment of a development finance company (2, p. 343).

The World Bank, International Development Association (IDA) and IFC have extended financial assistance to fifteen development finance companies in fourteen different countries.

The World Bank has extended twenty-one lines of credit to ten institutions, totaling the equivalent of $234 million. Two IDA credits of $5 million each have also been granted. IFC has made ten equity investments in as many institutions for a total investment of $15 million. In the case of six companies, the World Bank and IFC have acted jointly: the former supplying the loan capital, the latter equity (2, p. 344).

Table X shows the distribution of this assistance by country and type.

This does not measure the full assistance given by the three organizations. When making an investment, the IFC has usually brought together a number of foreign investors to participate with it in the share capital. The World Bank also gives assistance beyond providing capital. It helps to draft the charter or Articles of Association, gives advice on investment policy, and locates top management as well as bringing other sponsors together. Technical assistance is provided by the World Bank and IFC after a company has been recognized or established. Sometimes the IFC is even asked to appoint shareholders.

Additionally, the World Bank operates the Economic Development Institute,
### TABLE X
WORLD BANK, IDA, AND IFC FINANCING OF DEVELOPMENT FINANCE COMPANIES
(Equivalents in millions of U.S. dollars)

<table>
<thead>
<tr>
<th>Beneficiary</th>
<th>IBRD Loans</th>
<th>IDA</th>
<th>IFC</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Number</td>
<td>Amount</td>
<td>Credits</td>
</tr>
<tr>
<td>1. Austria: Osterreichische Investitionskredit A. G.</td>
<td>3</td>
<td>23.3</td>
<td></td>
</tr>
<tr>
<td>2. China: China Development Corporation</td>
<td>-</td>
<td>-</td>
<td>5.0</td>
</tr>
<tr>
<td>3. Colombia:</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>(a) Corporacion Financiera Colombiana de Desarrollo Industrial (CFC)</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>(b) Corporacion Financiera Nacional (CFN)</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>4. Ethiopia: Development Bank of Ethiopia (DEB)</td>
<td>2</td>
<td>4.0</td>
<td></td>
</tr>
<tr>
<td>5. Finland: Industrialization Fund of Finland (Toolistamirahasto Oy)</td>
<td>1</td>
<td>7.0</td>
<td></td>
</tr>
<tr>
<td>6. India: Industrial Credit &amp; Investment Corp. of India Ltd.</td>
<td>5</td>
<td>89.9</td>
<td></td>
</tr>
<tr>
<td>7. Iran: Industrial and Mining Development Bank of Iran</td>
<td>1</td>
<td>5.2</td>
<td></td>
</tr>
<tr>
<td>8. Malaysia: Malayan Industrial Development Fin. Ltd.</td>
<td>1</td>
<td>8.0</td>
<td></td>
</tr>
<tr>
<td>9. Morocco: Banque nationale pour le development economique</td>
<td>1</td>
<td>15.0</td>
<td></td>
</tr>
<tr>
<td>10. Pakistan: Pakistan Industrial Credit &amp; Investment Corp. Ltd.</td>
<td>4</td>
<td>49.0</td>
<td></td>
</tr>
<tr>
<td>11. Philippines: Private Develop. Corp. of the Philippines</td>
<td>1</td>
<td>15.0</td>
<td></td>
</tr>
<tr>
<td>12. Spain: Banco del Desarrollo Economics Esp., S. A.</td>
<td>-</td>
<td>-</td>
<td>0.3</td>
</tr>
<tr>
<td>13. Turkey: Industrial Development Bank of Turkey</td>
<td>2</td>
<td>17.6</td>
<td>5.0</td>
</tr>
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<td>14. Venezuela: C.A. Venezuela de Desarrollo (Sociedad Financiera)</td>
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<td><strong>Totals (columns may not add to totals due to rounding)</strong></td>
<td><strong>21</strong></td>
<td><strong>234.2</strong></td>
<td><strong>10.0</strong></td>
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a college for senior officials involved with economic development, to which the staff of development finance companies have been invited (2, p. 345).

Private capital from abroad was one of the major considerations toward solving the capital inflow problem of developing countries. Private capital seems to be an excellent way for a developing country to build up its capital resources. However, the main problem is going to be in attracting this private capital. This problem was mentioned but no satisfactory solutions were found. Perhaps, a solution will emerge in other UNCTAD meetings for this appears to be an excellent way to develop an economy.

CHAPTER VIII

CONCLUSION

In its discussion of trade as an aspect of development, the Third Committee of UNCTAD held sixty-four meetings (4) in which it focused on the following:

First, the general targets on which the international community might focus in dealing with the problems of development through trade and international cooperation in general were appraised. Second, a number of principles and criteria aimed at providing constructive guidelines for policies in the various areas of international financial and technical co-operation were formulated; and third, several specific measures bearing on the broad issue before the Committee were elaborated (3, p. 207-208).

After the above actions had been taken, the Third Committee submitted a draft resolution to UNCTAD containing its four main recommendations. Recognizing the unsatisfactory character of actual growth rates in developing countries, the Committee first recommended that the responsibility of providing resources for the development of the underdeveloped countries be jointly shared by developed and underdeveloped economies. Secondly, all competent international bodies should examine the economies and development plans of individual countries to determine the possibility of higher growth rates and to suggest the measures to achieve them. Third, the import capacity resulting from the combined total of export proceeds and capital inflow available to developing
countries should rise sufficiently and the measures taken by the developing countries should be high enough to achieve these higher rates of growth. Finally, each economically advanced country should try to supply financial resources to the developing economies of a minimum net amount approaching as nearly as possible to 1 per cent of its national income (3, p. 178).

The recommendations of the Third Committee were studied, as were all other Committees', and a Final Act and Report prepared. The Final Act called for an agreement on the importance of the problems of international development. The recognition of the need for greater efforts by both developed and developing countries to divide the responsibilities of development was mentioned. Finally, further study was recommended in some areas as a means of finding solutions on which both developed and developing economies could agree.

This contribution to future meetings was notable. However, much more could have been accomplished if the suspicions and misgivings of both the developing and the developed countries had been laid aside. For example, Barbara Ward pointed out that the developing nations felt that their old enemy--colonialism--had been joined by the United States and the united Western world (5, p. 128). The industrialized Western nations, in the minority at the Conference, were reluctant to grant specific measures, and when some measures were approved, filled them with reservations so they lost part, if not all, of their force (6, p. 24).
Another limitation to UNCTAD was its failure to adopt any specific procedures for helping the development of the developing countries. There were guidelines and targets set up but no definite actions. Admittedly, this was only the first of a hoped-for series of conferences to try to improve the world trade situation. However, it would seem more significant to any future meetings if some concrete action had been initiated at the 1964 UNCTAD. For example, UNCTAD might have adopted the transferring of 1 per cent of the combined gross domestic product of economically advanced countries to the developing countries as mentioned in Chapter VI. Instead, the decision to reach such a target was left up to the individual nations whose aid programs are usually governed more by political expediency than by economic necessity (2, p. 265).

A final limitation of UNCTAD was its failure to use properly the research presented. The statistics presented by Dr. Prebisch showed a tendency for the trade gap to increase every year. Even though there is some economic growth occurring, it is not advancing at a fast enough rate to fill this trade gap. The avenues of borrowed funds were examined and shown to be lacking as an efficient means for poor countries to implement economic growth. Also the international terms of trade were assessed and found to be adverse to the developing economies. Thus the developing countries' debt continued to increase.

Because of this failure to solve the trade problem, the situation is worsening. If no effective solution can be found, the result will be
a block in the economic development of international trade. The economic growth of the individual countries would then decline, and, if allowed to fall too far, the result would be depression. Another possible result could be war between the "have" and the "have-not" nations.

Although UNCTAD failed to arrive at any solid conclusion on how to solve the international trade problem, it nevertheless made two notable contributions. The first lies in the fact that the conference could be held, that it could proceed and be concluded without any major disruptions (1, p. 126). This is especially significant when reviewed in the perspective of the different positions of the developed, developing, and Soviet bloc economies. Secondly, the establishment of permanent machinery to carry on the work started provides a hopeful beginning.

The Conference ended with the hope that the future meetings would take up the study of international trade problems where the 1964 UNCTAD stopped and would reach some significant solutions before the trade problems become acute.
CHAPTER BIBLIOGRAPHY


