

*Alfred Maizels*

This year's 20th anniversary of UNCTAD provides an opportune occasion for reviewing both its achievements and the nature of the constraints upon its effectiveness. There is no doubt that UNCTAD has some real achievements to its credit, in two distinct but closely interrelated fields. These are, first, the initiation of new ideas, new concepts and new approaches to the problems of trade and development and, second, the negotiation of international agreements or conventions on specific issues.

### **Negotiations**

To take this latter aspect first, a number of path-breaking steps have been taken as regards the negotiation of new international agreements. The Convention on a Code of Conduct for Liner Conferences, negotiated in 1974, is now in operation, with radical changes in the legal framework governing the shares of developing countries in the shipping of their foreign trade. The agreement on the Common Fund for commodities, reached in 1980 after four years of intensive negotiations, is another landmark, since although it is considerably emasculated from the original proposals of the Group of 77, it is none the less of significance in so far as it will be — when it comes into operation — the first international non-aid financial institution not dominated by the developed countries.

Again in 1980, after more than a decade of consultations in UNCTAD, a set of Principles and Rules for the control of restrictive business practices was finally agreed providing for the first time internationally agreed means for the control of such practices, including those of transnational corporations, adversely affecting international trade. Negotiations in UNCTAD on a Code of Conduct on the transfer of technology have proved more difficult, and though the greater part of the Code, after many years of intensive negotiations, has now been agreed, a number of issues remain undecided.

However, in the key fields of commodities, manufactures and money and finance — the main issues involved are touched upon below — negotiations have proved complex and frustrating. It is difficult not to conclude that in spite of its negotiating successes, UNCTAD has so far had only a marginal impact on the trade and development problems of the Third World.

### **Analysis and Policy**

UNCTAD has had much greater impact in its other function — as initiator of new ideas and new policy approaches. Dr Prebisch's original analysis, as presented to UNCTAD I in 1964, identified the main constraints on the development process as arising from the linkages of the economies of developing, with those of developed, countries, particularly the secular tendency of the terms of trade of developing countries to deteriorate. While this thesis — also associated with Hans Singer — was strenuously opposed by 'mainstream' economists as well as by government representatives of Western industrial countries, it did provide a general conceptual framework which greatly influenced the 'development dialogue' between rich and poor countries.

Moreover, UNCTAD's intellectual contribution was not confined to a general analysis of the constraints on the development process arising from external linkages of Third World countries with developed countries, but extended also to new approaches, and specific proposals, in each of the main linkage areas. In the commodity area, for example, in addition to the Common Fund proposal, already mentioned, there was the concept of an integrated approach to dealing with the many-faceted problems of commodity markets, the proposal for the indexation of commodity prices to prices of imports into developing countries and, more recently, the proposal for a new commodity-related compensatory financing scheme to compensate for shortfalls in the earnings of individual developing countries from their commodity

exports. In the field of manufactures, the concept of special preferences for imports into developed countries from developing countries was agreed at UNCTAD II in 1968, although earlier it had been resisted by developed countries as contrary to the GATT principle of non-discrimination.

In the important area of international monetary and financial policy, UNCTAD has played a leading role in clarifying the issues and in proposing new lines of remedial action. In the early days of UNCTAD much stress was laid on the need for a scheme of Supplementary Financing to support the development programmes of developing countries which were threatened by unforeseen adverse changes in real export earnings; on the adoption of an aid target by all donor countries and on the creation of a link between SDRs and additional development finance. Following the breakdown of the Bretton Woods system in 1971, UNCTAD played an important role, even if from the sidelines, in identifying specific areas and proposals for a reformed international monetary system. In more recent years, with the rapid accumulation of external debt by a large number of developing countries, UNCTAD has turned its attention to possible ways and means of alleviating the debt burden.

In other linkage areas — technology, shipping, insurance and the least developed countries — UNCTAD has also been a source of important initiatives based on new analysis and policy formulation. In technology, UNCTAD activities have gone beyond framing a Code of Conduct for technology transfer to encompass efforts to enhance the technological capabilities of the developing countries themselves. In shipping, UNCTAD has been actively considering the merits of recommending the abolition of flags of convenience, one effect of which would be to promote the use of developing countries' national shipping lines in the carriage of their bulk export cargoes. In the field of insurance, where UNCTAD is the sole responsible international body, much effort has gone into promoting national insurance markets and developing new regional reinsurance pools. UNCTAD has also become the focal point for UN concerns with the trade and development problems of the least developed, landlocked and island developing countries. The Paris Conference of 1981 on the least developed countries, which agreed a 'substantial new programme' of financial and technical support for this group of very poor countries, was one important milestone in a continuing UNCTAD programme in this area.

Two other policy areas should be mentioned here, both of which have witnessed UNCTAD initiatives designed to extend the external economic linkages of

developing countries to new trading partners. The first relates to trade and economic cooperation between developing countries and the socialist countries of Eastern Europe, where UNCTAD has played a useful role in reviewing constraints and proposing new action, as well as providing a forum for annual bilateral consultations on trade matters. The second concerns the increasingly active field of trade and financial relations among the developing countries themselves, where UNCTAD has become the focal point for the elaboration of interregional action to promote collective self-reliance.

Over these varied and complex areas, many new policy proposals have succeeded in coming to fruition. Many, however, have not — essentially a consequence of disagreements on the nature of the particular problem in question and on the need for remedial international action.

### **Conflicting Ideologies**

These disagreements on a wide variety of specific proposals for interregional action essentially reflect a conflict of the theory, or 'paradigm', held by the two sides in the North-South dialogue. Developed market-economy countries have tended to invoke the tenets of neoclassical economic theory in support of their opposition to international regulation of the 'normal working of market forces', whereas developing countries have generally argued that unregulated free markets work to their disadvantage, so that regulation is needed to achieve a more equitable international system.

This latter argument derives in part from the Prebisch-Singer thesis. If, in fact, the terms of trade of developing countries are subject to a secular deterioration — and they have certainly deteriorated since the mid-1950s — then clearly some action is required in equity to offset the resulting drain of resources. Such action has usually been envisaged as including measures to reduce the fluctuations in commodity prices (thus putting a 'floor' under the export prices of developing countries), to improve access to the markets of developed countries and to secure a greatly expanded flow of financial resources, both concessional and commercial, on more suitable terms.

This equity-type argument essentially envisaged changes in the mode of operation of the existing institutions governing economic exchanges between developed and developing countries. The call for a New International Economic Order (NIEO) by the sixth special session of the UN General Assembly in 1974 went further, since this was essentially a demand by the developing countries for a thoroughgoing

restructuring of the institutional framework itself, including 'full and effective participation on the basis of equality . . . in the solving of world economic problems'. The underlying assumption of this approach is that the division of the benefits of economic interchange between rich and poor countries must be viewed as a consequence of the relative bargaining strengths of the two groups, rather than be left to the 'normal working of market forces'. Indeed, the 'normal working' of these market forces must be seen as a reflection of the powerful entrenched institutional position and bargaining power of developed countries.

There is little doubt that the main developed countries saw the NIEO demands as a potential threat to their dominant position in the international economic system. This reaction generally explains their opposition to the various specific proposals for institutional reform put forward by the developing countries, both in UNCTAD and in other international forums. The opposing arguments deployed on some of the key proposals in UNCTAD are reviewed briefly below.

With the successive economic crises of the 1970s, accompanied by a marked slowdown in the rate of economic growth in Western industrial countries, together with a sharp rise in the rate of inflation, the equity argument for a global development strategy soon came to be complemented by the argument that measures to accelerate development in the Third World would also benefit the developed countries, particularly by resulting in an expansion of demand by developing countries for imports — particularly of capital goods — from developed countries. Thus, by reaching agreement on practical measures to promote development in the Third World, the international community would at the same time have taken steps to assist developed countries in overcoming the economic recession. This is one aspect of the 'mutual interest' thesis so eloquently presented in the Brandt Report, and it also formed the basis of the proposals presented at UNCTAD VI in 1983.

The general argument that the international economic system can be made to operate more efficiently (by introducing various forms of intervention to promote development in poor countries) is not, however, one which was accepted by the developed market-economy countries, either at UNCTAD VI or at previous sessions of UNCTAD. The essential counter-argument, which follows logically from the premises of neoclassical economic theory, is that any governmental intervention in the normal working of market forces will inevitably result in a misallocation of resources and in a reduction in real income. However, it is now widely recognised that the premises

of the neoclassical approach — perfect competition, perfect foresight, perfect factor mobility, full employment, the absence of 'externalities' and an unchanged original income-distribution — are so far removed from reality that the theory has little relation to how the real world actually works. Moreover, the credibility of this type of counter-argument, when advanced in international discussions, particularly in UNCTAD, by representatives of developed countries has been in question in view of the fact that these same countries have themselves been actively engaged in increasingly widespread interventions, by means of subsidies, fiscal and regional policies, employment and tariff policies, etc, in their own domestic economies.

### **Control of International Organisations**

Apart from this apparent clash of opposing ideologies, which has proved a major constraint in efforts to reach concrete agreements by negotiation, there is a further, more political, factor which has had a generally inhibiting effect. UNCTAD is the only truly international organisation in the field of international economic relations to be created as a result of the demands of the developing countries. The two Bretton Woods institutions — the IMF and the World Bank — have remained firmly in the control of the developed countries since their inception, while the negotiating procedures in GATT revolve around bilateral negotiations between major trading nations, the results of which are then multilateralised to other GATT member countries, so that the developing countries are essentially on the sidelines. By contrast, in UNCTAD the problems and needs of the developing countries are always in the forefront of discussion so that, in this respect, continual pressure is placed on the developed countries to respond positively to them. Moreover, in UNCTAD — unlike the Bretton Woods institutions — the developing countries have a voting majority, which is exercised on particular occasions, though there is a tacit understanding that agreement should normally be reached on a consensus basis.

Since UNCTAD as an organisation is not within their control, the bloc of Western countries generally oppose proposals which would give UNCTAD any new operational powers. Particularly in the areas of money and finance, Western countries firmly insist that decisions can be taken only in the Bretton Woods institutions, so that any consensus reached in UNCTAD — for example on making the SDR the principal reserve asset, liberalising the 'conditionality' imposed on IMF loans to developing countries or extending the IMF Compensatory Financing Facility — remain merely recommendations with no mandatory force. Again, the Western bloc has always insisted that

negotiations on reducing trade barriers can be conducted only within the GATT framework, even though UNCTAD's terms of reference as approved by the UN General Assembly cover action to improve market access.

### **The Integrated Programme for Commodities (IPC)**

In the case of the IPC, however, it was not possible to deploy the argument that international commodity negotiations were covered by another organisation, since UNCTAD is the sole organisation empowered to conduct such negotiations. Instead, the Western countries entered into a series of detailed discussions, consultations and negotiations with the other regional groups in what proved to be a protracted, complex and often frustrating process. These negotiations covered both the establishment of a new international financial institution, the Common Fund, and the setting up of new International Commodity Agreements (ICAs).

An Agreement on the objectives, capital structure and mode of operation of the Common Fund was eventually reached in June 1980, just four years after the relevant UNCTAD resolution. It was immediately evident that the original proposal of the Group of 77 had been very substantially amended. Instead of the Fund having a central pool of finance with which to support the buffer stock operations of international commodity organisations (ICOs), most of its financial resources are to come from deposits with it by the ICOs themselves, the Fund being endowed only with a minimum amount of its own capital. Though the Fund will be able to borrow additional amounts (eg from commercial banks), the fact that it has no substantial capital of its own inevitably diminishes its potential influence as an independent financial institution. Moreover, the original proposal that the Common Fund should itself be empowered to intervene to support commodity prices in emergency situations (where no ICA was operative) was strongly opposed by Western countries, and has been omitted from the 1980 Agreement.

That Agreement includes a new element — not part of the original proposal — consisting of a 'second window' to finance measures other than stocking, such as productivity improvement and diversification, the finance to be raised by voluntary contributions from governments. Provided that such finance can be raised in adequate amounts, and is made available to support national, as well as international, projects (a point still in dispute), it should prove attractive for many developing countries.

However, it now seems unlikely that the Common Fund will in fact be able to play the dynamic and

catalyst role in strengthening world commodity markets that was originally envisaged, not only because it lacks its own substantial capital, but also because the developed market-economy countries have a 'blocking vote' which they can exercise in discussions with 'significant financial implications' and in 'other important' decisions. There is little doubt that the more powerful Western countries viewed the original Common Fund proposal as a potential threat to their present dominance of world commodity markets, and that this threat was successfully nullified by their skilful and determined negotiations in UNCTAD.

Progress has been even slower, and even more frustrating, on the negotiation of new ICAs. Since the IPC resolution of 1976, only one new ICA with price regulation objectives — that for natural rubber — has been concluded. The delay in establishing the Common Fund may well have acted as a disincentive for speedy conclusion to the various ICA negotiations. So, too, were the technical complexities involved, the conflict of interests among producing countries, and between these and consuming countries. A more pervasive constraint, however, has been the opposition of the developed market-economy countries to any significant extension of the principle of international market regulation. One reason for this has been the belief that ICAs eventually become a means for raising prices above the trend, though in practice this would not seem to be a likely outcome since importing countries would have an equal say with exporters in determining revision of agreed price ranges.

More generally, the Western bloc's opposition to price-stabilisation through ICAs has been, as mentioned earlier, on the grounds that this would interfere with the normal working of market forces so leading to resource misallocation, and also that price stabilisation could in certain circumstances result in a destabilisation of export earnings. Both these arguments, which can be shown to rest on unrealistic assumptions regarding initially perfect markets, are in plain contradiction to those used to justify agricultural price support in the Western industrial countries themselves. Though their arguments have lacked credibility, the developed market-economy countries have succeeded in blocking the establishment of new price-stabilising agreements, apart from the exceptional case of natural rubber, thus reducing still further the significance of the 'first window' of the Common Fund as a financing mechanism for commodity market stabilisation.

### **Industrial Protectionism**

The failure of the developed market-economy countries to act in their domestic economic policies in accordance with their professed 'free market'

principles is even more obvious in the case of the manufactured export of developing countries (essentially the 'NICs'). As the manufacturing industries of these countries have expanded into new areas, and have increased their competitive edge, so the main Western industrial countries in recent years have widened the scope of their protectionist devices (many of which have been developed outside the framework of GATT) in view of domestic, political and economic difficulties.

The economic arguments for structural adjustment measures to be taken by the industrialised countries have been made on many occasions in UNCTAD bodies by the UNCTAD Secretariat, as well as by the Group of 77. Though such measures may well be more difficult to implement in a period of recession, such as the present, it should be remembered that the adoption by developed countries of protectionist devices which discriminate against developing countries goes back to the Long-Term Arrangement on Cotton Textiles of 1972 — well before the mass unemployment problems of more recent years.

Though it would be generally accepted that both sides would benefit — at least in the medium and longer-term — by a reduction in the level of protection, and detailed proposals on this issue were under discussion at UNCTAD VI, no concrete agreements have so far emerged in UNCTAD. The Western industrial countries continue to insist that negotiations in this area can be pursued only in GATT, which helps to avoid the political pressures in UNCTAD, and allows them also to maximise their bargaining positions in negotiations among themselves.

## Money and Finance

The detailed proposals of the Group of 77 in UNCTAD for thoroughgoing reform of the international monetary system were reflected to an important extent in the report of the IMF Committee of Twenty, but these and related proposals fell into limbo with the sharp rise in world inflation and in oil prices, and the growing external payments difficulties of developing countries from the mid-1970s. The main elements of an international monetary reform seem as far away as ever, new policies being adopted by the IMF on an essentially *ad hoc* basis.

The increasing attention devoted to the external debt problem led to two new proposals being put forward in UNCTAD at its fourth session in 1976, the results of which are a further indication of the resistance of the Western industrial countries to meaningful institutional change. The first proposal was that immediate debt relief should be provided for the least developed and the 'most seriously affected' countries. On this, a

compromise agreement was reached in 1978 at a ministerial-level meeting in UNCTAD, under which donors agreed on a retrospective improvement in the terms of official debt among poorer developing countries, though they reserved the right to decide the modalities and the beneficiaries at their own discretion.

A second proposal, for the refinancing of commercial debt on to a long-term basis, found no support from developed countries, though a third line of approach, to establish guidelines for the renegotiation of official debt, proved successful.

Efforts in UNCTAD to achieve an enlarged and more predictable flow of concessional finance to developing countries — such as pledging of aid on a multi-year basis and the use of an international development tax — have not been welcomed by developed market-economy countries. The prospects for new aid mechanisms, such as a development tax, remain distant, and this may well reflect the implications of such new mechanisms for the existing institutional arrangements for aid which remain firmly in the control of donor countries.

## Some Implications

The central point which emerges from this brief, and admittedly incomplete, review of the UNCTAD scene, is that it is dominated by a clash of ideologies, and by an apparent conflict of interests, as between developed market-economy countries and the developing countries. Though many arguments have been put forward to demonstrate, even sometimes to quantify, the mutual interests of both sides in measures to promote the development process, the mutual interest thesis in its various forms has never been accepted by the more powerful Western industrial countries as a basis for practical action.

Generally speaking, there seem to be two reasons for this. First, measures to promote the development of the Third World which involve international intervention or regulation of commercial markets are opposed on principle by the Western bloc, or agreed to reluctantly and with qualifications. Secondly, measures which involve new operational activities by UNCTAD itself are also opposed on principle by the developed market-economy countries, since such activities would not be under their effective control. These countries would evidently prefer UNCTAD to remain essentially a 'talking shop', any (substantive) innovation action being restricted to the IMF, the World Bank or other agencies.

In the circumstances, the surprising thing is perhaps the extent of the success that UNCTAD has, in fact,

achieved over the past two decades, some instances of which were mentioned at the beginning of this article. But, by and large, these successes are in fairly specialised fields. Progress in the central areas of international development strategy remains limited.

What, then, are the implications of this analysis for the future of UNCTAD? Clearly, unless a new consensus approach can be forged, UNCTAD is not likely to emerge as an effective negotiating forum in which practical solutions to the underlying problems of the world economy, particularly those of developing countries, can be thrashed out. In that situation, UNCTAD's role would revert essentially to analysis and clarification of the issues involved, with negotiations — apart from those on more technical and specialised issues — tending to be confined to institutions in which developing countries have a minority voice. Since UNCTAD is the sole agency concerned with broad issues of international economic interaction, having representation of countries of different social and economic systems as well as of different levels of development, negotiations in more restricted forums are unlikely to result in solutions of a durable nature. Such a situation would mean, in effect, the abandonment of the post-war effort to evolve a genuine global strategy for development.

The alternative would be to attempt to derive a new consensus in UNCTAD related more closely to the current — and probably continuing — issues of slow growth and increased instability in the world economy. There seems little doubt that the cycle of economic activity in the Western industrialised countries is greatly amplified by the workings of international financial and commodity markets. The resultant swings in commodity prices and in the availability of international liquidity from the private banking sector can, and often do, seriously damage the economies of developing countries, as well as exacerbating inflationary pressures in developed

countries during price booms, thus making economic management in those countries much more difficult.

The 'mutual interest' argument for promoting Third World development, namely that this would have a beneficial feedback on developed country exports now needs to be complemented by a parallel argument that measures to support commodity prices in a recession (or, more generally, to reduce the instability of commodity markets), together with complementary measures to ensure a smoother and more predictable flow of international financial resources, would also reduce the instability of the world economy itself. A central function of UNCTAD in the period ahead could thus be to evolve the intellectual basis for a new consensus on the key issues of the world economy and of the needs of the development process in the context of the much more sombre prospects for the decade to come.

However, to proceed from the evolution of such an intellectual consensus to practical action requires also a recognition by developed country policy-makers that the advantages of mutual interest policies are likely to outweigh the disadvantages, as perceived by them, of a reduced role in the management and control of the international economic system.

Though there is little sign of such recognition at present, and therefore of significant negotiations on key development issues being pursued in the near future, in the longer term much will depend on the degree to which developing countries take steps themselves to enhance their economic strength, including their mutual economic linkages, and thus increase their collective bargaining power. The intensification of economic cooperation among developing countries (a detailed programme for which is currently under consideration in UNCTAD), will thus be of strategic importance in the longer term in negotiating structural and institutional change in the international economy.