# UNCTAD SCHMUNCTAD?

## by Michael Lipton

1. The Conference Albatross

What's in a name? A great deal. The rose would smell far less sweet if it were called the Lesser Stinkwort. And the UN's activities for trade and development might prosper more, were they not tied to that tearsome thing, a 'Conference'. .... Poor countries present non-negotiable demands; rich countries do not negotiate; meetings disperse after worthy - but debating-society - resolutions about Suez or Vietnam. Journalists enjoy themselves.

This is not to deny that valuable and serious activities are being promoted by the UNCTAD Secretariat. It has sponsored research work on aid-tying and the effects of private foreign investment on the recipient's foreign balance. Together with other international organisations, it has supported the International Trade Centre's efforts to help poor countries with export promotion. The executive arm of UNCTAD, the Trade and Development Board, tries, between conferences, to cajole the rich into keeping their promises. Within the Secretariat, too, the splendid muckraking of the Invisibles Division, under Dr. Malinowski's care, has exposed the murky practices and evasions of the price-fixers in international shipping, themselves co-ordinated by a series of conferences.

Nevertheless, UNCTAD is alone among UN specialised agencies in that, Regan-like, its foot usurps its body. Not just in image but in reality, talk drives out action. Quadrennial confrontations of unrepresentative élites, from ungenerous rich and uncoordinated poor countries, produce unworkable compromises among nuclear positions. Between Conferences, the political work of the Secretariat usually

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seems far removed from the patient bargaining by which the GATT's small staff has so carefully cleared the path of the developed countries towards reciprocal trade liberalisation.

In that word 'reciprocal', rather than in any difference in method, lies the key to different degrees of success. GATT promotes the exchange of advantages; UNCTAD tries to unite the weak to extract unilateral "concessions" from the strong. .... A more patient, bargaining, even politicised Secretariat is a necessary but not a sufficient condition for an UNCTAD freed from showpiece confrontationism and able, by engaging in the search for reciprocal gains from negotiation, to help "the wretched of the earth". If the Conference is to be dethroned within UNCTAD, clear guidelines must be established for what the Secretariat can usefully do, beyond research and self-administration. It is the argument of this paper that, in all the major fields of rich-poor relations, UNCTAD can achieve much if only it will give more thought to bargaining.

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Bargainers, especially weak ones, had better agree before approaching their adversary. UNCTAD is ideally set up to help poor countries establish - not under hectic Conference conditions but beforehand[1] - common positions promising, insofar as their shared interests allow, the best chance of gain from negotiations with rich countries. Sometimes such gain can be achieved by arm-twisting - threats or acts of expropriation or of new trade restriction. The structure of world markets and the alternatives open to rich countries, however, are such that poor countries will usually do better, as a group, by subtler negotiating tactics, involving an exchange of concessions.

Whichever applies, .... three considerations are often neglected. First, the poor countries concerned can usually strengthen their joint bargaining position by preparing for what game-theorists call "side payments" among themselves. If, as a group, they expect to get the best bargain from the rich world out of a certain offer, but at a cost to specific members of the group, the poor gainers can compensate the poor losers, leaving poor countries as a whole better off than if they had agreed on an offer to the rich world benefiting

[1] I am well aware that some pre-Conference consultations restricted to poor countries take place already - but at a prior conference, with similar constraints (Algiers before UNCTAD II at Delhi in 1968; Lima before Santiago this time).

all their members only a little . (This is especially relevant to bargains about trade preferences.) Second, bargains about zero-sum games are impossible. Given a reasonable degree of knowledge, well-run nation states do not tolerate risk for nothing, and hence never embark on such games. Thus international negotiations, about (say) the entry into a group of poor countries of a multinational company, imply that all parties believe there is some net gain to be distributed by the results of such a negotiation. Third, and this is where the GATT procedures help (though, as we shall see, the GATT agreement itself does not), bargaining is not about unilateral concessions but about the distribution of gains.

Some might fear that if UNCTAD engaged in the lengthy advance co-ordination of an agreed position for poor countries, before it oversaw their bargaining with the rich world, they would risk exposing their disagreements for exploitation by the rich. But that certainly happens now, with the present UNCTAD pre-conference arrangements; with an UNCTAD Secretariat increasingly experienced in guiding extensive preliminary secret talks, on specific issues, among poor countries (as in the initial stages of the currently promising cocoa negotiations in Geneva), the risk of leaks should be reduced. Another fear, that representatives of poor countries might advance the interests of national élites rather than poor people, is not special to the approach here proposed. Nor can I accept that poor countries, with their big and growing protected markets, lack bargaining counters; indeed their preference for jam today seems naturally bargainable against rich countries' taste for more jam tomorrow.

However, to get the feel of what might happen if two-stage bargaining replaced zero-sum Conference confrontationism as the main focus of UNCTAD activities, we shall have to look at the four main areas of debate at Santiago, and to ask how they would be approached differently along the lines here proposed. We must, I fear, start with the observation that confrontation by moral suasion along the lines of the three UNCTAD conferences - while it may embarrass some rich countries - will not produce worthwhile improvements for poor ones. To be even less useful, the ideas in this paper would have to be worse than useless!

## 2. The Prospects of Trade Bargaining

The disagreements among rich countries are often blamed for their failures to make "concessions" to the poor countries at UNCTAD. This is very convenient. At Santiago Britain can oppose Third World proposals on insurance, the US on SDRs, France on preferences, and each can look generous on two issues while substantive concessions are effectively vetoed on all three. The truth is that peaceful international relations are not about "concessions" but about bargains (aid is a partial exception). If the Conferences, and the built feelings imposed upon Western civil servants, went on all the time instead of for a few weeks every four years, some minor "concessions" could perhaps result; but this is not the case. Nowhere has the technique of Conference embarrassment proved more useless to poor countries than in trade. The story of the "generalised preference scheme" for the manufactured exports of less developed countries is both sad and instructive.

At the second UNCTAD Conference in Delhi in 1968, the rich countries were conveniently (but genuinely) unable to agree on a list of manufactured exports from which they would grant tariff preferences to the poor world. They did agree to prepare national lists, but despite pressure from the UNCTAD Trade and Development Board they have been very slow about it. The USA has still not finalised a list, and any impact such a list might eventually acquire has been far outweighed by the impact of US protectionist measures meanwhile, in shipping as well as in quota and tariff matters. The EEC has enacted a list that provides for tariff preferences within gradually expanded quotas, for such manufactured goods as EEC imports from poor countries in miniscule quantities: a procedure described by the leading specialist in this field (Professor Richard Cooper of Yale) as "fraudulent". The UK's somewhat more generous list will shortly be replaced by accession to this fraudulence, as to the Treaty of Rome itself.

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If the mean and abortive preferences, granted to some manufactured exports of some poor countries, represent the failure of Conference confrontationism, the UNCTAD-supervised cocoa negotiations (even if they do not come off this time) represent a much more fruitful approach. There is a common interest of producers and consumers in fairly steady, predictable commodity prices, partly to reduce the requirements for numerous and costly counter-speculative stocks. For a poor country where tax revenues depend heavily on duties levied upon one or two exports, predictable prices are almost essential for planning. The difficulty with international commodity agreements is to get the right price. If it is set too high, then low-cost producers will undercut it, evading the agreement if necessary (in collusion with buyers), as with "tourist coffee" smuggled outside the agreed export quotas of the International Coffee Agreement. A too-low agreed commodity price (a rarer problem) produces excess demand and again leads to production and sales outside the Agreement. It is thus very important that producers co-ordinate their price tactics, making perhaps more use of side-payments than hitherto, in advance of negotiations with consumers. But it has to be emphasised that with tropical commodities we have a clear case of a joint advantage (from price stabilisation) to be shared between buyers and sellers: bargains, not concessions.

Commodities produced in both rich and poor countries, such as sugar and wheat, create a more complex bargaining situation, because of conflicts of interest within each rich importer; between producers and consumers. There is little difference, as regards the structure of the bargaining problem, between these commodities and manufactures like the various grades of spun cotton yarn. In each case, there are three parties interested in the outcome of the final negotiations: the less-developed exporting countries, whose interests can for these purposes (especially if side-payments are possible) be regarded as homogeneous;[1] producers competing at higher unit cost with such countries, but based in rich importing countries; and buyers of the products in rich importing countries. Plainly the exporters want freer trade. The producers in the importing country do not, because although the country gains by having its skilled labour and savings freed for more efficient use, the means for "compensating the losers" out of such gains are weak and slow. The consumers in the importing country clearly gain from freer trade that cheapens sugar, wheat-bread, shirts, shoes or carpets: however, (a) they are seldom organised behind an articulate voice; (b) if they are housewives they are divided in their loyalties insofar as their husbands are beet- or cereal-farmers, cotton-spinners, shoemakers or carpet-weavers; (c) hence they hardly ever form a serious source of pressure upon negotiators from the importing country. The Board of Trade, or its equivalent, fully recognises the benefits to "Britain" from freer trade. The pressures upon it, however, come not from "Britain" but from employers and trade unions; and, even here, the interest of industrial and working-class consumers in cheaper goods and wider choices seldom prevails. It is usually too general, too long-run, and perhaps in our male-run societies too much felt by housewives in its immediate impact, for use as an effective political weapon.

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[1] UNCTAD could perhaps do more to prevent the spread of export subsidies under circumstances where the producers replaced are likely to be in poor countries, or where a Dutch auction of subsidies is probable, or where retaliation by consumers against dumping is likely and would damage poor countries other than the original subsidiser.

There are all sorts of things poor countries can do about this, and UNCTAD is the ideal forum to organise such action. First, as we shall see, carefully selected private foreign investment by poor countries, both in each other and in rich countries, can help get the barriers down; so can some conventional rich-to-poor forms of movements of private capital. Second, there is much more that poor countries can do within rich customer countries - in the first instance (though not, one hopes, competitively) through the commercial sections of embassies and High Commissions. Consumers can be organised; US, European and UK consumers' organisations could be encouraged, informed and perhaps discreetly financed to campaign against arbitrary protection of inefficient activities, such as shirt-making and sugar-beet farming, that raise domestic prices and waste resources; more promisingly, the industrial consumers of restricted imports (carpet-makers who use jute backings, jam-makers who need sugar), and their unionised employees, could be mobilised to apply pressure to governments, parliaments and Boards of Trade to point out that the restrictions imperil their capital and jobs.

Secondly (and in these days of multi-product companies and conglomerates this is most important), poor countries - in the process of dismantling those parts of their own protectionist structures that have proved excessive or arbitrary and hence harmful to their own development[1] - should not liberalise unilaterally. Instead, they should offer to liberalise some imports in return for at least equivalent advantages for some exports. Multilateralism is probably dead - killed by the Treaty of Rome, buried in August 1971 by Mr. Nixon - but remains a splendid and perhaps revivable ideal, beneficial to almost all, so that poor countries could gain by being prepared to extend "exchanged liberalisation" fairly far, or in principle universally. Moreover, it is clear that poor countries will gain by coordinating their liberalising approaches, most notably in drawing up bilateral arrangements with the EEC - and here UNCTAD has a big opportunity.

Why has it not happened to a large extent already? The amendment to the GATT agreement permitting rich countries to confine nonreciprocal import liberalisation to poor countries, perhaps, has helped mislead the latter into expecting this Father Christmas approach. So has the absence of straight talk by rich countries' delegates at successive UNCTAD conferences. These men have repeatedly

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[1] I.M.D. Little *et al.*, *Industry and Trade in Some Developing Countries*, OECD, 1971; B. Balassa *et al.*, *The Structure of Protection in Developing Countries*, IBRD, 1971.

said, "You deserve unilateral concessions, but we can't afford them given our balance-of-payments"; or, "but France won't let us". The reality is that, while aid is nominally (and to some extent genuinely) about unilateral concessions, trade is not. Let swapping commence!

It might well be argued that, since even unilateral trade freeing normally benefits the importing as well as the exporting country, the latter need make no concessions to get it. Unfortunately that argument is reciprocal! It is true that the language of trade-treeing "concessions" is an unhappy mercantilist relic caused by the domination of Boards of Trade by merchant, rather than free-trading consumer, pressures. Merchant pressures dominate because of the serious underdevelopment in rich countries of channels by which some of the benefit from freer trade can be used to overcompensate displaced merchants and their employees, and to retrain them in lines of production where the country enjoys a comparative advantage.

This suggests a third area of common concern to poor countries in their quest for access to rich markets. It is an area where determined UNCTAD diplomacy in rich countries might bring startling results: the development, within rich countries or trading blocs, of adequately financed means to redeploy, retrain and resettle the workers, managers and businessmen whose occupations "go under" as a result of free international competition. EEC has a model organisation of this sort in the European Social Fund, but it currently dispenses only very small sums, and is confined to adjustment assistance following displacement caused by the lowering of *intra-EEC* trading barriers. There are powerful forces in most Western countries, especially in the trade unions, who would welcome an extension of such arrangements, to cover "adjustment assistance" for resettlement and retraining in response to any freeing of trade. UNCTAD might well work profitably with such interests in rich countries, so as to secure a major extension of market access by removing some of the fears that underlie opposition to it.

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## 3. UNCTAD and the Decline of Aid

If trade is an unpromising field in which to extract "concessions" through appeals to the conscience of the rich, aid looks much more hopeful. For all its distortions commercial, political and military, aid retains a genuine gift element.[1] Moreover, its economic rationale - to permit a poor country (despite population growth) to invest enough to achieve levels of income, and hence savings, that will ultimately sustain growth without aid - has worked for several recipients, is perfectly compatible with some altruistic donor motives, and yet offers the donor some effective ultimate return for bread cast upon the waters, in terms of expanded trade with a stable and increasingly prosperous recipient. If quadrennial conferences cannot embarrass traders out of their greed, surely they can embarrass donors to mix more altruism into their enlightened self-interest?

Yet the chasm between words and action elicited from rich countries is even wider in aid than in trade. UNCTAD I, at Geneva in 1964, produced agreement in principle (AIP) that developed countries transfer as aid or private foreign investments, 1% of net national product (NNP) to less developed countries. UNCTAD II, at Delhi in 1968, produced AIP to raise this to 1% gross national product (a rise of about 10%), of which seven-tenths was to comprise aid. UNCTAD III has produced AIP on special earmarkings for "least-developed countries" - defined to exclude Bangladesh (one of the poorest countries in the world) because of its inconveniently large population and hence requirements! But AIP is not aid. Each year since 1961, net aid has declined as a share of donor NNP, from 0.54% in 1961 to a likely 0.28% this year. Private investment by rich countries in poor ones has fluctuated wildly around an uptrend, but it is absurd - if convenient to such reluctant donors as the UK - to add this to aid and form an overall target. .... For well known reasons, the inclusion of private foreign investment with aid in a composite target - as if it were all homogeneously controllable giftwise, and clear of reverse flows - is what the Germans call, usefully but untranslatably, "irreführend".

As for aid proper, the truth is that it cannot be demanded. One can, however, appeal to interest groups within rich countries that benefit when aid is granted. In particular the move towards "untying" of aid from purchases in the donor nation - by reducing the gains to the powerful commercial lobby - will, if successful, mean reduction of aid. Hence, while untied aid world-wide is a fine

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[1] OECD estimates that about 80% of gross aid comprises "grant element; i.e. grants plus interest foregone on loans (the latter discounted from the due date to estimate value at the moment of loan). Aid, net of repayments of past aid loans, varies around $6,600 million per year. From this, perhaps 15% of gross aid or $1,000 million must be deducted - the cost of 'tying' of most aid to purchases from the donor, at prices inflated by the removal of multi-country competition.

ideal, concentration on "price-policing", to prevent monopolistic or cartel measures to "price up" tied-aid goods, will surely help poor countries much more. It could, however, with UNCTAD pressure, be brought home to donors that untied aid is often needed for tied aid to work: how can India use British machinery if it lacks foreign exchange for the import of essential non-British raw materials?

Nor is it clear that the search for softer terms of aid loans helps poor countries. The choice is bound to be between more hard aid and less soft aid. According to the overall credit position of a country, one or the other will be preferable. By opening and replenishing its "soft loan" (1/4%) department, IDA, the World Bank has moved towards the provision of a whole spectrum of terms-of-aid, within which donor and recipient choices can usefully be made. Should not UNCTAD press for a much swifter move in this direction, covering bilateral as well as multilateral aid?

A further common interest of donors and recipients arises out of the debt position. For a few recipients of aid (India, Nigeria) past loans, though concessional, have created cumulatively enormous interest burdens, and drastic softening of new aid is needed if donors (and world capital markets) are to avoid unpleasantness, ranging from rescheduling through Pakistan-style unilateral moratoria to frank defaults. It is perfectly sensible, as Keynes pointed out, for big debtors to exploit creditors' fear of a plague of defaults in order to soften future terms. A commoner case is that debts have accumulated, not from aid loans, but from costly credits, tied to overpriced exports, as in Ceylon, Ghana and Brazil. Here soft aid merely bales out the loan sharks, unless it is part of an operation to fund short-term debt and to prevent it from mounting up again. The former requires a quite tough settlement between IBRD (as the donor consortium) and private creditors in rich countries; these creditors cannot expect to continue drawing high interest charges if the donor authority removes the risk of default that alone could have justified them. The latter requires an improved balance-of-payments and reserves position in the recipient country. Generally - in developed as well as underdeveloped countries - lenders have pressed for unimaginative measures to secure this: measures linked neither to the structural problems of the recipient's agriculture nor to the import restrictions of the recipient's overseas customers, usually the root causes of the bad balance of payments. Straws in the wind, especially at IBRD, indicate that UNCTAD would have powerful allies in the rich world in pressing for a more liberal approach to "strings".

So far, we have been looking for improvements within the existing aid framework. But might UNCTAD press for changes in that framework? Disillusion with aid, and with the development process as a whole comes not from the inadequacy of poor countries' performance conventionally defined (income-per-head in the Third World grew at 2.8% per year throughout the 1960s) but from the failure of growth to spread its benefits to the really poor. Aid has done little to help - less than 12% has gone to agriculture, less than 1% to family planning, practically none to non-élite health and education services. Several smaller donors, notably Sweden (which has made the contribution to income equalisation a necessary condition for aid) but also Holland and Canada, have begun to respond to this by restructuring their aid programmes. Insofar as UNCTAD represents poor countries and not rich élites, it could help speed and spread this necessary adjustment.

## 4. Private Foreign Investment and International Money

We have shown that private overseas investment (POI) is not aid; but poor countries, especially if they act together under UNCTAD guidance, can use it to lower or leap rich countries' trade barriers. There are three possible methods to be considered. Most familiarly, if ICI or Dunlop sets up shop in a poor country, it becomes a powerful source of pressure in the UK (and maybe elsewhere) for freer imports from that country; such pressures can hardly ever be confined to products of one particular firm, and may indeed spread well beyond one particular type of commodity, either because of the way the rich importers laws are drafted or because of the diversification plans of the investing company. All this should be borne in mind when negotiations about private foreign investment take place; grants of licences should be ruthlessly used as a lever to obtain a freer market access to the country of origin. Furthermore, foreign investing companies often hope to benefit from continued high protection for their products within the poor country to which they move - sometimes the continuance (or enactment) of such protection is one of their conditions for entry. UNCTAD should help poor countries work out the full implications of such conditions, not only for increased domestic costs, but also from the loss of present - and the gain of future - opportunities for bargaining about "exchanged liberalisation" on the lines discussed above.

A less familiar use of POI would involve selective invitations by poor countries to companies from other poor countries with relevant technology and experience. For example, Hong Kong and South Korea have been particularly successful in expanding their textile exports to the USA, UK and EEC. Fashion-consciousness, marketing skills, and above all the capacity to adjust to and overcome shifting protectionist devices have all helped. Because of their very success, wage-costs are rising, and their export structures will increasingly shift to slightly more machine-and-skill-intensive lines, especially light electronic goods. Meanwhile, the managerial ingenuity and experience of Korea's and Hong Kong's textile industries are of special relevance to India and Pakistan. POI by them in such countries is obviously indicated. ....

Let us now get more fantastic. POI is much lauded by many economists in rich countries. Would they welcome some at home, from poor countries? The latter are very short of capital, yet POI by them could well be indicated in some cases. This applies especially to commodities such as tea. Value-added in shipping, processing, marketing and distribution has grown much faster than in production, and labour-intensively at that. Moreover, producer countries find it difficult to benefit from improved production techniques (or to use their bargaining power) because of their separation from the rather centralised, albeit highly efficient, and vertically integrated overseas sector that produces much of, and markets almost all, the commodity. Would not Ceylon gain by owning a major tea processing-selling outlet in the UK? This is not so fantastic: she could have purchased one in 1968, and the decision to refrain was as close as it was mistaken.

Let us now turn from POI as a means of trade pressure to improve a poor country's trade situation. What else do poor countries seek from it? The love-hate relationship is much discussed, and understandable. My concern here is with UNCTAD's capacity to improve poor countries' power to bargain with big overseas companies. Too often the company's lawyer, accountant and surveyor receive thrice the pay, and are twice the quality, of their counterparts in the governments of the poor countries with which they deal. All too often, especially (as Seers has shown) in the Caribbean, poor countries compete - via tax holidays and other concessions - to worsen the terms on which they attract a limited total of POI. In both these spheres, UNCTAD could improve matters, respectively by acquiring top-rate cadre personnel and by preparing uniform draft agreements for governments of a region to present to POI companies. In this latter direction the work of Vaitsos for the Andean Pact countries, in a limited sphere, is a model.

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A few words are needed about international monetary arrangements. I seriously question whether poor countries are asking for the right things. Representation at the top-level negotiations through formal expansion of the Group of Ten is shadow, not substance. Infinitely more important for poor countries is that rich countries reach a monetary settlement that encourages each of them to settle its future crises (whether of the current balance-of-payments or of speculative outflows of reserves) by expanding exports rather than by contracting imports. A wave of protectionism ....should be the poor world's real nightmare: as the US, EEC and Japan restricted imports from each other there would be few exemptions for the poor; as growth contracted, so would aid. UNCTAD should surely be pressing on the rich world the need for a quick, lasting and expansionist monetary settlement - above all quick, for that, not representation at the monetary top table, is the chief need of poor countries. ....

Unlike UNCTAD (and most developmentalists), I also doubt whether the proposals to link aid to SDRs deserve the emphasis they have received in Santiago. These proposals are a transparent device to increase aid, an excellent aim, but one not obviously advanced by unsuccessful camouflage. Both aid and SDR expansion have powerful, illiberal enemies: why unite them? Moreover, SDR expansion exists mainly to relieve liquidity shortages. SDRs received as aid, when spent, will rightly be used to buy the most competitive exports - which are likely already to have won their producers excellent foreign balances. Therefore "SDRs as aid" seem likely to direct the extra liquidity to those developed countries who need it least.

I am not at all convinced that the details of international monetary settlements are very important matters for the scarce time of UNCTAD's officers. .... Still, UNCTAD might well look into Michael and Frances Stewart's proposal for the establishment of Third World monetary arrangements, somewhere between a clearing house and a limited common currency, to encourage trade among poor countries, which have huge and largely unexploited potential complementarities. The very discussion of such arrangements, by presenting rich countries with an unpalatable alternative to an expansionist world monetary-trading system, would provide both a potential threat and a potential concession with which to induce the building of such a system. As such it is the right note on which to end this discussion: for I have tried to show how, by the appropriate mixture of exchanges of mutual advantage with uses of power, UNCTAD could move from largely futile demands for generosity to the coordination of common Third World interests into an effective bargaining system.