

UNCTAD: SOVIET POLITICS IN THE  
NORTH-SOUTH CONFLICT

Charles Anthony Schwartz  
Bethesda, Maryland

B.A. Denison University, 1968

*Approved 7/31/73*  
*Alfred Farnbach*  
*Irving K. Handberg*

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Dissertation Abstract  
Charles A. Schwartz  
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This dissertation seeks to further our understanding of the process of international development assistance as it has evolved under the impact of the North-South conflict by examining the Soviet Union's attitudes toward and participation in the United Nations Conference on Trade and Development (UNCTAD). The analysis follows essentially a dual approach. From one perspective (system analysis), UNCTAD's functions, potentialities and limitations as a development institution are discussed. From a second perspective (actor analysis), this study surveys the main issues precipitated by UNCTAD for the USSR's trade and aid relations with the developing countries and explores in a more general fashion recent trends in East-South economic cooperation. The dissertation as a whole concerns the interaction between the Soviet Union and a major United Nations development agency and illustrates the complexity and difficulty of trying to reconcile the interests of a communist superpower with the economic needs of the "have-not South."

Chapter I sketches three important trends in international concern with, and approaches to, the problems

of the developing countries which have been reflected in UNCTAD's experience: (a) the mounting recognition of the key role of trade in the development process; (b) the emergence of a North-South political perspective as the poor nations organize to change the status quo of the world trading system; and (c) the growing developmental interest in the progress and prospects of economic cooperation between the Soviet bloc and the developing countries. Chapter II deals with the historical background of the convening of the first UNCTAD Conference in 1964: the failure of the proposed International Trade Organization in the early postwar years; Soviet prodding during the 1950's for a world economic conference that would discuss East-West trade problems; and the metamorphosis which took place in both the sponsorship and aims of the proposed conference with the upsurge of North-South conflict over trade and development issues in the early 1960's.

Chapter III concerns the issue of creating permanent UNCTAD machinery which ~~pre~~dominated the 1964 Conference and develops the argument that the bitter tripartite East-West-South conflict on this matter was essentially a political one. Chapter IV discusses the major economic issues raised but left unresolved at the 1964 Conference and traces what

progress has been made on them within UNCTAD's permanent machinery and at the 1968 and 1972 Conferences. Both Chapters IV and V focus on the economic and political factors which have shaped the semi-developed socialist economies' approach to international trade and development cooperation and survey recent patterns and innovations in East-South economic relations.

The concluding chapter emphasizes the intractability of economic issues which cut at the heart of national policies and institutional arrangements and practices, and questions whether UNCTAD's global approach to development and the concomitant North-South confrontation formula are suited to reconciling the divergent interests of rich and poor nations. The chapter also dispels the notion of a congruence of superpower interests in the North-South development conflict and distinguished between the <sup>USSR's</sup> ~~USSR's~~ desire to establish complementary trade and production patterns with developing countries and the West's reliance on granting direct aid rather than substantial trade concessions.

Investigation was conducted along two interrelated lines of inquiry: examination of the documentary record of UNCTAD; and analysis of Soviet sources concerning UNCTAD, world trade and economic development, and related areas.



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The dissertation's overall contribution to existing knowledge in the field is to expose and analyze the main political and economic issues precipitated by UNCTAD for Soviet relations with the developing countries. The study also provides a comprehensive history of the drive from the late 1940's to convene a world economic conference and assesses UNCTAD's role as a mechanism for aggregating and pressing Southern demands against the rich North.

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## PREFACE

This dissertation seeks to further our understanding of the process of international development assistance as it has evolved under the impact of the North-South conflict by examining the Soviet Union's attitudes toward and participation in the United Nations Conference on Trade and Development (UNCTAD). The analysis follows essentially a dual approach. From one perspective (system analysis), UNCTAD's functions, potentialities and limitations as a development institution are discussed. From a second perspective (actor analysis), this study surveys the main issues precipitated by UNCTAD for the USSR's trade and aid relations with the developing countries and explores in a more general fashion recent trends in East-South economic cooperation. The dissertation as a whole concerns the interaction between the Soviet Union and a major United Nations development agency, and illustrates the complexity and difficulty of trying to reconcile the interests of a communist superpower with the economic needs of the "have-not South."

The USSR's trade and aid program in the developing areas is intimately related to numerous other aspects of Soviet policy. This study deliberately avoids pursuing those other aspects beyond their immediate relevance to the Soviet position on development assistance within the North-South context. East-West trade, for example, has a direct bearing on economic relations between socialist

and developing countries but is a subject for special study. The Soviet Union is the focus of interest; the role of the East European socialist states is depicted statistically but discussed only briefly. Finally, this study treats Soviet trade as, fundamentally, an economically justified operation. The presence of economic motives does not, of course, preclude political considerations and it is oftentimes difficult to distinguish between the two. But when viewed against the complexities of the economic development process itself, and the distinctive features of the Soviet centrally-planned economy, the USSR's trade activities appear in their proper and most fascinating dimensions.

By virtue of the subject matter, it is well to be clear on area definitions. The terms "East Europe" and "East European socialist countries" refer to Albania, Bulgaria, Czechoslovakia, the Democratic Republic of Germany, Hungary, Poland, and Romania. (The Democratic Republic of Germany is not a member of either the United Nations or UNCTAD but is included in UN trade statistics as part of the East European group.) These seven states plus the USSR have constituted the membership of the formal Soviet bloc trade organization, the Council for Mutual Economic Assistance (CMEA), practically since its establishment in 1949, although Albania ceased to participate in the Council's work in 1961 and Mongolia became a

member in the same year. To avoid the monotony of repetition, the CMEA group excluding Mongolia is also designated the "socialist countries," "Soviet trade bloc," and "centrally-planned economies."

In addition, two Soviet Socialist Republics, Byelorussia and the Ukraine, are members of the United Nations and UNCTAD but are not usually considered as individual countries. Yugoslavia and the four Asian communist states, the People's Republic of China, Mongolia, the Democratic People's Republic of Korea, and the Democratic Republic of Viet-Nam are not regarded as part of the socialist group in this discussion. Yugoslavia and Mongolia are original members of UNCTAD and China joined the organization in 1972.

The "less developed," "developing," or "poor" countries refer to all countries in Africa except South Africa, Asia except Japan and Taiwan, the Middle East except Israel, the Americas except the United States and Canada, Oceania except Australia and New Zealand, and Yugoslavia.

The "Western" or "developed market economy" countries include the United States, Canada, Europe other than the socialist states of East Europe and the USSR, Australia, New Zealand, Japan, Taiwan, Israel, and South Africa.

The dichotomies "North-South" and "rich-poor" broadly distinguish all of the developed countries, i.e., both the

socialist and Western groups, from all of the developing countries. "East-South" relations comprise the economic relations between the Soviet trade bloc and the developing countries taken as a group.



## CHAPTER I

### INTRODUCTION

A major international initiative in the field of development assistance has been the establishment of the United Nations Conference on Trade and Development (UNCTAD), an organization which marks the beginning of a new era in multilateral efforts to promote economic cooperation between rich and poor nations. The main theme of the first Conference, held at Geneva in 1964, was the demand by the developing countries for "a new trade policy for development"--largely the intellectual creation of Raul Prebisch--involving a set of recommendations for accelerating the economic growth of these countries through basic changes in the patterns of world trade and existing institutional arrangements and practices. This demand reflected the recognition that the halcyon days of cold war competition in aid-giving had ended, that a climate of fatigue and frustration with the results of direct foreign aid was setting in, and that any hope for substantial external resources lay in a concerted program of international measures to utilize trade for development purposes.

UNCTAD-II took place at New Delhi, India in early 1968 to examine progress made toward implementation of the goals set forth at Geneva session and to start new activities on a number of specific economic issues. UNCTAD-III convened at Santiago, Chile in the spring of

1972 to elaborate an international development strategy for the Second United Nations Development Decade. In the years following the 1964 Conference the United Nations constituted UNCTAD as a permanent organ of the General Assembly, and Dr. Prebisch as its first Secretary-General created an autonomous UNCTAD secretariat with offices in Geneva and New York. Most importantly, the organization's continuing conference machinery, the 55-nation Trade and Development Board and its Committees, began to engage in the slow and arduous task of reconciling the divergent trade and aid interests of developed and less developed countries. At a time in which "the communications gap between rich and poor is as wide as the income gap," to use Robert Asher's expression, UNCTAD has carved out an active role for itself by giving focus and direction to a long-term process of change in international economic relations.

The nature and functions of UNCTAD reflect and to some extent magnify a number of important trends in international concern with, and approaches to, the problems of less developed countries. One trend is primarily economic, and underlies the developing countries' call for a shift in development resources from the category of direct aid to that of indirect aid in the form of preferential trade measures. Since the early 1960's it has become clear that the transfer of direct foreign aid from

rich to poor nations is an insufficient means of promoting economic advancement. On the one hand, the claims for development assistance have steadily increased with the growth in the number of developing countries and their rising prospective requirements for external resources. On the other hand, the portents for a greater supply of aid have steadily become worse during the past decade. There has been a noticeable relaxation of interest in development programs and a leveling off or decline of aid expenditures by many of the principal donor states for a variety of reasons: the accumulation of experience with the development problem and disenchantment with the results of past efforts; a world monetary crisis of serious proportions; balance-of-payments difficulties in the United States and Great Britain; an abatement of East-West tension, rendering less urgent the need to employ aid for short-term political ends; and American preoccupation with domestic issues and the Vietnam War. Moreover, as it has become increasingly difficult for the developing countries to get aid in desired quantities, rising interest rates and the servicing of extended debts have become a substantial and onerous offset to the real value and effectiveness of aid transfers. These developments have led to growing pressures from the poor states for more aid on easier terms and likewise stimulated new interest in the possibilities of obtaining other forms

of assistance.

In addition, and of more fundamental significance, the key role of trade in the development process has gained widespread acceptance in recent years. Since the latter half of the 1950's many developing countries have suffered a serious deterioration in their export performance, owing to a sluggish increase in external demand for their basic commodities compounded by an adverse movement in their terms of trade. As a result, these countries have been faced with a situation in which their export earnings have been inadequate to pay for the imports essential for development. This trade gap has been filled largely by capital imports in the form of grants and loans. However direct aid, as noted, cannot provide a permanent solution and imposes severe economic burdens and political uncertainties on the recipients. If present world trade policies are continued, the less developed states will not be likely to earn the additional foreign exchange necessary for alleviating the external imbalance and financing further modernization of their economies at a satisfactory rate. Consequently, they have sought to secure more resources for development by pressing for structural reforms in the world trading system designed to strengthen markets for their traditional exports and generate the growth of manufactures and new markets.

A second important trend in the field of international

development is primarily political, and is characterized by the emergence of a North-South perspective as an influential determinant of the nature or quality of relations between rich and poor nations. Until the first United Nations Development Decade was launched in 1961, each developing country tried to carry out a modernization program on its own, although aided in some cases by the former colonial power. This bilateral approach to development was inevitable given the close economic ties between some of these emergent states and their former colonial masters. However, from the gradual awareness of the basic identity of their economic situation, the less developed countries have joined forces to extract from the advanced countries as a group a greater share of resources as both direct aid and improved terms of trade. This new multilateral approach reflects most clearly the determination of the developing countries "to take charge" and attack the problem of development on two broad fronts: to reduce the income gap between rich and poor nations by charting a common course of action on trade and aid issues; and, to narrow the no less ominous political gap by banding together to amplify their claims and enhance their bargaining position. The thrust of the developing countries' attack is a demand for integration into the world economy, a demand for new and mutually beneficial interrelationships between

industrial rich and agricultural poor, between "haves" and "have-nots." Because the less developed countries lie predominately in the Southern Hemisphere, their relations with and demands upon the industrially advanced states to the North have been conceptualized in North-South terms.

These two trends, the mounting concern with the integral relationship between trade and development and the salience of North-South tension as the poor nations organize to change the status quo of the world trading system, have shaped to a large degree the contemporary international development process. They came to the fore at the Bandung Conference in 1955 when the economic problems of the developing countries were presented as an issue of international significance, and they culminated a decade later in the convening of UNCTAD as a center of initiative and pressure for making world trade a more powerful vehicle of economic development. Notably, UNCTAD was the first major worldwide conference in which the North-South division submerged the old East-West lines of contention.

Not until the creation of UNCTAD did a third and more recent feature of multilateral development efforts emerge with some clarity: the growing developmental interest in the progress and prospects of economic cooperation between the Soviet trade bloc and the less developed countries.

Prior to the Geneva Conference the developing countries had concentrated mainly on gaining concessions from the Western advanced countries and, to a lesser extent, promoting trade and industrialization within their own regional arrangements. But at UNCTAD Southern claims for development assistance have been directed not only toward former colonial masters and their cold war ally, the United States, but also toward the USSR and East European socialist countries, which are pressed to broaden and facilitate their economic relations with the developing countries.

In one respect, demands upon the Soviet trade bloc have been made pro forma by the poor nations as part of a conscious effort to establish the North-South conflict as the relevant focus on issues affecting their economic welfare and to deny the priority of the East-West conflict. As a result, Moscow's foreign trade and aid strategy is caught up in the tension between its peculiar interests and prestige as a communist world leader and the claims of poor countries for development assistance which besiege the Soviet Union's great but not unlimited resources and ignore its ideological assumptions. What is even more significant, and of special interest for this study, is that some consideration has been given at UNCTAD to the possibility that an expansion of East-South trade might make a valuable contribution to the development.

of the poor nations. It is noteworthy that there are already indications of key movements in this direction which, if continued, could have far reaching consequences for both the socialist and the developing countries.

The economic relations between the Soviet bloc and the less developed countries have passed through several important phases in the past three decades, reflecting the basic policy shifts of the Soviet Union toward the Afro-Asian world as well as the changing production structures of the two groups of countries. During the years immediately following the Second World War the USSR and East European socialist countries pursued very similar patterns of development, involving both a concentration of resources on heavy industry and a general policy of national and regional autarky. Economic links with the outside world, particularly with the emergent nations, were negligible.

But in the mid-1950's the Soviet Union abandoned its economic isolationist tendencies and embarked on a new program of commercial and political penetration into Asia and Africa. Expanded trade ties became a chief instrumentality of the Soviet offensive, and during the period 1955-1965 trade between the socialist and the developing countries formed one of the most dynamic sectors of world trade. It nearly doubled every five years. This was a period of relatively rapid and easy



trade growth on the basis of latent export capacity and import needs. Although the Soviet leadership had begun to interpret its autarkic policy less stringently, foreign trade was heavily concentrated on relatively few countries and commodities and it remained a small part of overall Soviet economic activity.

A number of new issues for the further development of East-South economic relations have emerged since the mid-1960's. The USSR and East European socialist states, faced with a persistent lag in their own rates of economic growth, have shown an increasing awareness of the uses and benefits of foreign trade. In general, the balance of emphasis in official pronouncements as well as in discussions of a less formal character has gradually shifted away from the importance of regional self-sufficiency and towards the comparative advantages of international specialization. The expansion of Soviet bloc trade with developing countries is specifically encouraged by such factors as the shortage of fuels and primary commodities within the East European area, the reduced costs engendered by replacing imports of some raw materials with imports of manufactures and semi-manufactures from developing countries, and the rising demand for foodstuffs and consumer goods in the socialist states.

The need for reorienting the socialist economies toward a more active involvement in the international division of

labor appeared among the priorities of the 1966-1970 plan directives of the USSR and East European states,<sup>1</sup> which hold out a promise that the search for more complementary production patterns will create new trade opportunities for the developing countries. Changes are beginning to materialize and produce results. In this light, the late 1960's is often viewed as a watershed in East-South economic relations, the new features of which are discernible in the Soviet bloc's plan directives for 1971-1975.<sup>2</sup>

NOTES TO CHAPTER I

<sup>1</sup>For the complete text of the USSR's economic plan directives for 1966-1970, see: Pravda, 20 February 1966, pp. 1-6, as contained in The Current Digest of the Soviet Press, vol. XVIII, no. 7 (9 March 1966), pp. 3-8+, and no. 8 (16 March 1966), pp. 3-13. Soviet economic reforms and prospects for expanded trade with developing countries are further detailed in Dr. Lev L. Klochkovsky, Trade Prospects in Socialist Countries: Union of Soviet Socialist Republics--Conditions, Policies, Approaches, Study by the Scientific Research Institute of the Ministry of Foreign Trade of the USSR, UN Document TD/B/303. For a survey of the East European economies and their foreign trade during the 1966-1970 period, see: Review of Trade Relations Among Countries Having Different Economic and Social Systems, Report by the UNCTAD secretariat, UN Document TD/B/307.

<sup>2</sup>For the complete text of the USSR's economic plan directives for 1971-1975, see: Pravda, 14 February 1971, pp. 1-5, as contained in The Current Digest of the Soviet Press, vol. XXIII, no. 6 (9 March 1971), pp. 1-12, and no. 7 (16 March 1971), pp. 6-16. For a general report on Soviet and East European economic development and foreign trade plans for 1971-1975, see: Review of Trade Relations Among Countries Having Different Economic and Social Systems, UN Document TD/B/359/Corr.1.

## CHAPTER II

### THE DRIVE TO UNCTAD

The historical background of the United Nations Conference on Trade and Development includes roots in the failure of the proposed International Trade Organization in the early post-war years; Soviet prodding for a world economic conference that would discuss East-West trade issues during the latter half of the 1950's; and the emergence of a common view among the developing countries and their sympathizers on the development problem and its relationship to trade in the last decade. The major determinant of UNCTAD, however, was the rapid entry into the United Nations after 1960 of a large number of less developed states as a clientele and potential leadership for effecting changes in the world trading system aimed at promoting their economic welfare. In these circumstances, the advanced Western nations found their own refusal to accede to demands for a new trade and development agency increasingly untenable.

#### Early Plans for International Trade Machinery

In the waning days of World War II, and as part of the attempts to lay the foundations of world peace and order, an extensive effort was made to establish an institutional and philosophical framework for international trade. At the San Francisco Conference in 1945 the drafters of the United Nations Charter considered international cooperation in

solving problems of an economic character to be essential for the "creation of conditions of stability and well-being" in the world and provided for action through the General Assembly and the Economic and Social Council as the two main organs in this field. In addition, it was anticipated that certain specialized agencies would conduct most of the actual work under the aegis of the United Nations. A currency stabilization fund, an investment bank for reconstruction and development purposes, a buffer-stock mechanism for commodities, and an international trade organization were the main institutions thought to be necessary for the realization of the UN's economic goals.

During the various consultations relating to the founding of the United Nations and its affiliated agencies, there was a widespread belief that the inclusion of the USSR as an important member of all of the postwar international organizations was of great political significance and a condition of their successful operation. Although the specialized agencies were designed in large measure to deal with the problems of free-enterprise economies in the light of prewar experience, it was expected in the West that the Soviet Union would join them.<sup>1</sup> The USSR took part in many of the exploratory discussions concerning trade and economic matters but its contribution was generally limited and unenthusiastic. The Soviet Union was active only where its direct interests were involved. This nominal cooperation ceased after the war had ended, and the Soviet Union

failed to become a member of any of the specialized agencies in the field. Until the mid-1950's the USSR's role in the international trade machinery which the United Nations had inaugurated was extremely restricted.<sup>2</sup>

Three of the four economic agencies envisaged during the wartime consultations came into being before the United Nations itself was organized. The Food and Agriculture Organization (FAO) was conceived at the Hot Springs Conference in May, 1943. The Soviet Union participated in the drafting of the FAO's constitution but has never ratified that document. Hungary, Poland, and Czechoslovakia joined FAO but withdrew from membership in the early 1950's at the height of Soviet hostility toward the organization.<sup>3</sup> The Articles of Agreement for the International Monetary Fund (IMF) and the Charter for the International Bank for Reconstruction and Development (IBRD) were drawn up at the Bretton Woods Conference in July, 1944. The USSR also took part in this Conference as well as in earlier informal discussions with American and British technical groups. In these negotiations the Soviet delegates showed an almost complete lack of interest in the broad purposes of the two institutions. Instead, their attention was mainly confined to matters which would directly affect the USSR: the obligations of membership; the availability of credits; the extent of the organization's influence over Soviet economic practices; and conversely, the extent of Soviet influence over the organizations' activities.<sup>4</sup> The USSR has never

ratified the Bretton Woods Agreements. Although Czechoslovakia and Poland joined the two agencies, Poland withdrew from membership in 1950 and Czechoslovakia was expelled in 1954.

An International Trade Organization (ITO) was to have been the final--and many felt the most important--specialized agency in the economic field. The United States took the initiative in promoting the creation of an ITO by drafting a blueprint for the organization and circulating these ideas in a pamphlet entitled Proposals for the Expansion of World Trade and Employment, published in November, 1945.<sup>5</sup>

In addition to an ITO charter, the Proposals embraced a comprehensive trade liberalization program designed to reverse the prewar trend toward economic isolationism and to resist the tendency to fasten wartime controls on a world economy at peace. The program provided, inter alia, for the universal application of the most-favored-nation principle; non-discrimination in trade, including a substantial reduction of tariffs and the elimination of preferences; and a number of measures directed at protecting the interests of developing countries. The American scheme for restoring and expanding international trade was only partially realized, but several of the ideas contained in the Proposals were revived a decade later by the Soviet Union as offering the most suitable solutions to some of the world's economic problems.

At the first meeting of the UN's Economic and Social Council in February, 1946, the United States delegation introduced a resolution providing for the calling of an International Conference on Trade and Employment and the appointment of a Preparatory Committee to elaborate its agenda.<sup>6</sup> The subjects suggested for inclusion in the agenda were identical to those included in the Proposals: (a) commercial policy; (b) commodity agreements; (c) restrictive business practices; (d) full employment policies; and (e) establishment of an International Trade Organization, as a specialized agency of the United Nations, having responsibilities in the aforementioned areas. The resolution was adopted without dissent,<sup>7</sup> and the Soviet Union and Czechoslovakia were named members of the nineteen-nation Preparatory Committee.

The Preparatory Committee held two meetings, one at London in the autumn of 1946 and a second at Geneva during the spring and summer of 1947. During the latter meeting a draft charter for an International Trade Organization was adopted as the basis of the work of the United Nations Conference on Trade and Employment, which then took place at Havana during the winter of 1947-48. The USSR did not attend the London, Geneva, or Havana Conference, nor did Soviet delegates participate significantly in the Economic and Social Council's discussions of these conferences. Czechoslovakia and Poland again followed a different course and attended the various trade talks, though only



Czechoslovakia signed the proposed ITO, or Havana, Charter.

Because of the USSR's failure to participate in the ITO negotiations some of the proposals concerning state-trading nations were dropped from the Havana Charter and the penalties against non-members were reduced.<sup>8</sup> Neither the Soviet Union's abstention, nor its later attack on the Havana Charter, however, was a basic factor in the eventual abandonment of the ITO project. The causes of the instrument's failure to obtain the necessary ratifications have been analyzed elsewhere,<sup>9</sup> but it is worth noting here that the nature of its Charter as a complex, compromise document and the decline of American support were chiefly responsible.

The USSR's disinterest in and abstention from the UN's activities concerning international trade and finance in the early years should not have occasioned surprise. Owing to the Soviet leaders' semi-isolation and their ideological differences with non-communist countries, Moscow could hardly have been expected to share the same sort of commitment as the West to large-scale cooperative programs. Politically, Stalin's xenophobia and his strategic objectives in Eastern Europe reinforced the already deep-seated Soviet antipathy toward international organizations. Stalin wanted the United Nations confined to security enforcement in a narrow sense; economic and other "accessory" functions were depreciated and generally ignored. Aware that the UN was a creature of the capitalist West, Stalin had agreed to membership only after the right to veto any

action in the Security Council inimical to Soviet interests was guaranteed.

Economically, the USSR was preoccupied with its own recovery and industrialization and with the sovietization of Eastern Europe. As the cold war developed, it became apparent that active cooperation in the UN's economic programs would not yield the USSR tangible assistance for postwar reconstruction and might possibly impede efforts to unify the Soviet bloc. Then too, membership in any of the specialized agencies in the field with their global orientation might have involved some slight interference with Soviet trade practices or the disclosure of then secret information. Beyond this, Moscow could anticipate that the USSR would occupy a minority position in those UN organs which would deal with economic matters, and that it would not have the protection of the veto in them.

In addition, the traditional communist attitude toward foreign trade may well have precluded Soviet interest in the goals of the UN's trade activities. While the United Nations sought to expand international trade on a multilateral and non-discriminatory basis and thus make possible a closer integration of the world economy, communist doctrine stressed the necessities of national self-sufficiency and freedom of action, and the USSR's economic policy had been directed toward these ends. The relatively small fraction of world trade carried on by the Soviet Union had been

generally aimed at procuring imports needed to fulfill economic development plans, or at gaining political advantages.<sup>10</sup> Thus, the USSR had manifested little interest in the expansion of international trade per se, and its objectives usually could best be attained through bilateral rather than multilateral trade. Nor could the Soviet leaders have been enthusiastic about fostering private enterprise and full employment in the Western nations, two indirect goals which underlay the American Proposals for expanding multilateral trade.

Finally, it is difficult to see how the Russians could have participated constructively in the UN's trade and financial institutions without a substantial change in the whole economic and political philosophy of the Soviet Union. This conclusion is not based on the fact that the USSR has a socialist form of economic organization and maintains a state monopoly of all foreign trading, albeit, the purposes and planned technical work of the specialized agencies had almost no application to a collectivist economy. Rather, the difficulty lies in the fact that the Soviet Union is a totalitarian political regime and thus may be expected to use foreign trade as an instrument of national policy more easily and more often than in countries with the free-enterprise system. Obviously, a large part of Soviet trade was and remains genuinely commercial in nature, but this in no sense negates the inextricable relationship between

economics and politics in a monolithic state. Economic cooperation for the development of a multilateral, non-discriminatory trading system is of course impossible to achieve with a nation which uses foreign trade as a tool<sup>11</sup> of power politics.

The political side of Soviet economic relations with other nations during the postwar period was reflected in Moscow's hostility toward the Havana Charter, which contained provisions designed to bring state-trading practices under the general principles of fair dealing in<sup>12</sup> international commerce. During the Economic and Social Council's debate on the completed Charter in the summer of 1948, the Soviet delegate claimed that the Havana Conference "had produced no useful results whatever for the development<sup>13</sup> of international trade." He argued that the Conference had failed because the industrially advanced states of the West had used it as a device to impose unfavorable tariffs and quantitative restrictions on the trade of underdeveloped countries, and because the United States had used it to promote its economic interests to the exclusion of those of all others. In addition, he denounced the Charter's provisions relating to state-trading and non-members with the charge that they violated national sovereignty and were discriminatory. On all these counts the Soviet delegate's remarks may have been motivated by the fear that the charter, though weak and difficult to enforce, might harm the USSR's

interests as a semi-developed and centrally-planned economy. For contrast, the Soviet delegate gave a eulogistic description of the USSR's foreign trade policy.

Outside of the United Nations, Soviet commentators were even more vituperative, charging that the Havana Charter was "a weapon of the U.S.A. in its struggle for world domination." <sup>14</sup> Although the USSR's viewpoint was never included in any resolution adopted by the United Nations concerning the Charter of the International Trade Organization, the Soviet attack may well have exacerbated the conflicts which had surrounded the negotiations and thus made ratification more difficult to achieve. After the abandonment of the ITO project about the time of the outbreak of the Korean War, organizational efforts to deal with the trading problems between socialist and capitalist countries remained sterile for nearly two decades until the Second United Nations Conference on Trade and Development in 1968.

#### Attempts to Fill the Vacuum in World Trade Machinery

The failure of the Havana Charter to come into force meant that certain organs of the United Nations had to assume some of the functions which the ITO had been expected to perform and a large number of bodies were established, inside and outside the UN system, to deal with various aspects of international trade. Commercial policy questions were considered by the General Assembly (particularly within its Economic and Financial Committee) and the Economic and

Social Council. A network of regional UN economic commissions, comprising the Economic Commission for Asia and the Far East (ECAFE), both set up in 1947, the Economic Commission for Latin America (ECLA), established in 1948, and the Economic Commission for Africa (ECA), set up in 1958, became the focal points for inter-governmental action relating to trade and development in their respective regions.

Specific matters were delegated to the Commission on International Commodity Trade (CICT), established by the Economic and Social Council in 1954 and reconstituted in 1958, and the Interim Co-ordinating Committee for International Commodity Arrangements (ICCICA), which was set up in 1947, pending the coming into existence of the International Trade Organization, in order to apply the principles laid down in Chapter VI of the Havana Charter to inter-governmental consultations and action on commodity problems. On the recommendation of the ICCICA, several United Nations conferences have been convened by the Secretary-General for the negotiation of specific international commodity agreements, and a number of study groups have been formed to deal with particular commodities for which no international arrangements exist. The executive functions inherent in such agreements are administered by international commodity councils. A Committee on Commodity Problems (CCP) and several working groups have provided a forum for consultations on commodity trade within the framework of the Food and Agriculture Organization. Finally, it is an integral part

of the functions of two other specialized agencies, the International Bank for Reconstruction and Development and the International Monetary Fund, to facilitate the expansion and balanced growth of world trade.

Outside of the United Nations system the main line of postwar evolution was in the international organizational structure for dealing with problems arising from tariffs and other barriers to trade. The General Agreement on Tariffs and Trade (GATT) was concluded in 1947 after a group of twenty-three nations, in anticipation of a successful outcome of the UN Conference on Trade and Employment, had agreed to negotiate the tariff concessions envisaged in Article 17 of the Havana Charter. The Agreement obligated the Contracting Parties to guarantee the stability of the negotiated tariff concessions by the advance application of some of the commercial policy provisions of the Havana Charter, the keystone of which was the most-favored-nation clause. Because GATT was intended as a stop-gap arrangement pending the ratification of the Havana Charter and the creation of the International Trade Organization, the Agreement did not provide for the establishment of an organization in the accepted, legal sense of the term. As a result, although GATT was expanded into a semi-permanent organization after the demise of the ITO project, it was never attached to the network of international bodies linked to the UN as specialized agencies

and its constitutional status has always been somewhat vague.<sup>15</sup>

Despite its relative success as a multilateral instrument which lays down a common code of conduct in international trade, GATT has suffered from the lack of a permanent structure to administer the tariff concessions and trade rules between the periodic meetings of the Contracting Parties. Hence, when the negotiators of thirty-four member countries met in Geneva during the winter of 1954-55 to review the provisions of the General Agreement, they attempted to remedy this organizational weakness by proposing the creation of an Organization for Trade Cooperation (OTC). In addition to administering a revised General Agreement, OTC was also intended to facilitate inter-governmental consultations on trade matters and to sponsor trade negotiations.<sup>16</sup> In the spring of 1955 the completed text of the OTC Agreement was submitted to the Contracting Parties of GATT for approval. Ultimately OTC, like its predecessor ITO, foundered, among other reasons because strong protectionist forces in the United States proved too powerful for Senate approval of the document.<sup>17</sup> But for a time the prospects of its coming into existence seemed promising. It was envisaged in the OTC Agreement that states would not be able to join the organization unless they accepted the obligations of GATT and were accepted by GATT. This rule would have made membership for the Soviet



Union and the East European socialist states difficult.<sup>18</sup> Basically, GATT has remained a "private enterprise club" whose activities have little applicability for communist countries where foreign trade is completely controlled by a state monopoly.

In addition to GATT, a number of smaller subregional groupings have been set up, largely for the purpose of promoting the liberalization of trade among members. These autonomous economic arrangements include: the European Economic Community (EEC); the European Free Trade Association (EFTA); the Latin American Free Trade Association (LAFTA); the Organization of American States (OAS); the Council for Mutual Economic Assistance (CMEA); and the Afro-Malagasy Organization for Economic Cooperation. Also, various steps have been taken toward establishing a free trade area in Central America.

To a certain extent, this proliferation in the number of organizations and regional groupings dealing with tariffs, commodities, and other aspects of international trade was due to historical and practical reasons. During the postwar years the countries of Western Europe were gradually rehabilitated, newly independent states launched economic development programs, and technological innovation induced a marked shift from primary products to synthetics which resulted in substantial changes in the structure and composition of world trade. Old organizations had to be expanded and new ones had to be set up to cope with the

several complex trade problems which these changes posed. Necessarily, this was done in a rather pragmatic manner.

It is conceivable that the number of organizations might have been smaller if the attempt made to establish the ITO had been successful. As was shown, the vacuum in world trade machinery which was left because of the failure to set up the ITO was filled in larger or smaller degree by the creation of several new organizations. Moreover, this expansion tended to take place in a somewhat haphazard fashion because there was no coordinating agency or common forum (like the ITO) which could assign priorities and establish a rational division of labor for the UN's trade activities as a whole. Neither the overburdened General Assembly's Second Committee nor the unrepresentative Economic and Social Council were effectively performing this supervisory function assigned to them under the Charter.<sup>19</sup> Consequently, organizations were sometimes established not necessarily where the need was more urgent but where political pressure was stronger. Bodies set up even for temporary functions soon developed vested interests with the result that they not only tended to perpetuate themselves, but also expanded their activities and often duplicated the work being done by others. The so-called Parkinson's Law was obviously in operation: committees tended to beget sub-committees and sub-committees, in their turn, working groups. A United Nations report by a group

of experts in 1963 indicated that at the time there were no fewer than forty-three organizations and sub-organizations dealing with international trade problems at different levels. The report states that "not only is their number large but the rate of proliferation has been quite high," adding that "there is apprehension that, unless suitable countervailing measures are taken now, the number may go up much farther during the next decade."<sup>20</sup>

The somewhat haphazard growth of organizations and the absence of a coordinating agency also resulted in certain complications in the international trade machinery. First, there was an unbalanced growth. In some fields, such as agricultural commodities, several bodies operated simultaneously, often duplicating their efforts. In other fields, for example, manufacturers and semi-manufacturers, mineral products, banking and insurance services, tourism and other invisibles, there was much less activity within the UN system. Second, the forest tended to be neglected for the trees: some of the new or basic trade problems of the developing and the socialist countries, as distinct from problems relating to particular commodities, failed to receive early recognition or sustained attention. Finally, there was no satisfactory universal forum where problems, such as structural changes in the trade between developed and developing states, ways and means of improving the terms of trade of developing states, and trade relations between countries with different economic systems, could be

considered and the necessary action initiated.

### Soviet Prodding for a World Economic Conference

Parallel to the efforts carried out to fill the institutional gap left by the failure to set up the ITO, the calling of a world economic conference, particularly to deal with international trade problems, had long been discussed within the United Nations. The USSR began a series of appeals for UN moves in this field as early as 1953, when it introduced a draft resolution in the Economic and Social Council on the expansion of trade between states with various economic and social systems.<sup>21</sup> This draft resolution was related to earlier Soviet suggestions advanced in ECOSOC and the General Assembly under the title of "discrimination in international trade," and was clearly aimed at Western restrictions on the export of strategic goods to communist countries.<sup>22</sup> Even though it was adopted in a greatly modified form,<sup>23</sup> this proposal was the starting point for a vigorous Soviet campaign, and it inaugurated a program of work within the UN to launch global machinery for a comprehensive review of trade and development policy.

The following year, the USSR submitted a similar draft resolution, but with the additional provision that ECOSOC should convene a world meeting of trade experts to formulate recommendations concerning the removal of obstacles to international trade.<sup>24</sup> The proposal was not passed, but the

Soviet initiative resulted in the adoption of an ECOSOC resolution which requested the UN Secretariat to undertake a study of the problems involved in expanding East-West trade and committed the Council to discuss means of facilitating the conduct of international trade at its twentieth session.<sup>25</sup>

The twentieth session of ECOSOC, held during the summer of 1955, occurred at the same time that an intensive effort was being made by the West to put GATT on a sounder operating basis through the creation of the Organization for Trade Cooperation. Soviet policy assumed new and unforeseen dimensions when the USSR submitted two draft resolutions to the Council: one concerned the abolition of discriminatory restrictions on trade,<sup>26</sup> and the other urged member states to ratify the Havana Charter.<sup>27</sup> The Soviet representative announced that the USSR was prepared to support the original proposal for an International Trade Organization, and he urged that the Council should encourage member governments to ratify the Charter. He stated that GATT could never be a substitute for the ITO because it was a "closed association which did not account for the interests of all states."<sup>28</sup> Although neither Soviet suggestion was passed, ECOSOC adopted two resolutions in this area.<sup>29</sup> They urged governments to take a number of steps to further develop international trade, and also insured that the problem of organizational machinery to assist in the growth of trade would be

discussed again the following year.

When discussion on these matters was resumed at ECOSOC's twenty-second session in 1956, the USSR dropped its appeal for ratification of the Havana Charter and proposed instead that an ad hoc committee should be set up to study and make recommendations for establishing an "international organization for trade cooperation."<sup>30</sup> The Soviet representative held that such an organization should be open to non-members as well as members of the UN, and that it should work for the elimination of all obstacles to international trade, including the abolition of discriminatory bans on the export of goods.<sup>31</sup> The result was similar to that of previous years; the Soviet proposal was not adopted but the Council decided to keep the problem under advisement.<sup>32</sup>

Faced with a stalemate in ECOSOC, the USSR renewed its campaign for the creation of international trade machinery at the General Assembly's eleventh session the same year. The Soviet representative stressed during the general debate that there was "an urgent need for a thorough discussion and an agreed solution to the most pressing economic problems connected with the expansion of international cooperation." In proposing that a world economic conference be convened in 1957, to which all countries whether members of the UN or not be invited, he suggested that the conference should consider:

--"the further development of international trade and the establishment of a world trade organization within the framework of the United Nations;

--international economic cooperation to facilitate the establishment of an independent national economy in underdeveloped countries;

--international problems of credit and finance."<sup>33</sup>

A draft resolution incorporating these suggestions was submitted by the USSR to the Economic and Financial Committee of the Assembly in November, 1956.<sup>34</sup> The document was, however, subsequently withdrawn in favor of a draft submitted by Poland and Yugoslavia which requested ECOSOC to consider the question of convening a world economic conference.<sup>35</sup> The Polish-Yugoslav proposal was rejected by the General Assembly by a close vote. This was mainly due to the resistance of the Western countries which considered these proposals as just another political maneuver by the communist states to win the sympathy of the developing nations. The Western countries were of the opinion that international economic problems should preferably be dealt with by existing UN methods and facilities and by a reconstituted GATT, and they saw no need for an additional world trade organization.<sup>36</sup>

Until the first United Nations Conference on Trade and Development in 1964, the USSR continued at nearly every session of ECOSOC and the General Assembly to advance proposals aimed at the convocation of a world economic conference for the consideration of international trade issues, or at making the United Nations the central forum for such discussion rather than GATT or some similar institution. Several draft resolutions sought to keep the

question of creating an all-inclusive trade organization as an active agenda item within the UN by requesting the Secretary-General to produce further studies on the matter.<sup>37</sup> One even suggested that amendments should be prepared to the OTC Agreement worked out in 1955 within GATT as the basis for a new trade agency.<sup>38</sup> Other Soviet-backed proposals called for the convening of a UN trade conference, either at an expert or a ministerial level.<sup>39</sup> Each proposal contained a draft agenda. Some of these included the establishment of a comprehensive trade organization, while others appeared to treat the conference as a substitute for such an organization. All listed the removal of obstacles to international trade and special attention to the economic problems of the developing nations as main topics to be considered.

Another series of draft resolutions accompanied these Soviet efforts to construct global trade machinery. In a sense, these proposals sought to use the United Nations as a substitute for such machinery. They recommended that the UN should elaborate principles which could be used as criteria for the further development of international trade and economic cooperation.<sup>40</sup> Some of the principles suggested by the USSR--for example, those related to the most-favored-nation treatment in trade relations and to the formation of subregional economic organizations and alignments--were clearly aimed at counteracting the Soviet bloc's economic



isolation and could easily be used as springboards for criticisms of Western policies and institutions. Other suggested principles, particularly those concerned with the provision of economic and technical assistance to the developing countries, were cleverly designed to appeal to major interest groups within the UN. In addition, the Soviet proposals sought to promote international scientific exchanges and trade fairs.

It has become a commonplace to credit the USSR's draft resolutions for UN moves in the field of international trade as constituting the first concrete plans for the convocation of the 1964 UNCTAD Conference.<sup>41</sup> It should be noted, however, that none of these recommendations was adopted except in a greatly modified form so as not to imply a condemnation of Western policies. Moreover, by the time that a decision to convene UNCTAD was made by ECOSOC in 1962, the initiative for holding such a conference had passed from the Soviet bloc to the developing countries. Before 1962, many of the Soviet proposals for new trade machinery had been easily defeated when Western draft resolutions favoring the ratification of the OTC Agreement endorsing current UN work in the trade field were juxtaposed.<sup>42</sup> Other Soviet proposals, untimely or unrealistic, were withdrawn because of lack of support. When the USSR suggested at the twenty-sixth session of ECOSOC the convening of a second United Nations conference on trade and employment for 1959 or 1960, the debate showed that "some

delegations favored the proposal in principle but considered that, under existing world tensions, it would be premature to convene a world economic conference." Some delegations were not prepared to accept even in principle another Soviet recommendation made at the same Council session that an international trade organization should be created on the basis of the OTC Agreement. In these circumstances, the USSR did not press for a vote on either draft resolution.<sup>43</sup> Similar sequences occurred often.

On the other hand, the USSR's recommendations touched on matters affecting the basic economic welfare of the developing countries and it was thus necessary to make some concessions to the Soviet position. The ECOSOC and the General Assembly resolutions adopted in this area--partly as a result of the USSR's tactics--led to a series of Secretariat reports on trade and trade mechanisms. Such resolutions and reports cost little and did not affect the functioning of existing institutions in any way unacceptable to their chief supporters, the Western states. Yet they focused attention more and more on the trade-development link and documented the failure of many less developed countries to share substantially in the gains in world trade and economic development since the end of the war. In this sense, the USSR's proposals probably encouraged the growth of pressures within the United Nations which led to the convening of the UNCTAD Conference. Meanwhile, a general

attitude of cooperativeness accompanied these Soviet initiatives. The USSR and its allies began to participate more actively in UN economic forums and usually abstained from voting on popular resolutions which they could not support, rather than to oppose them. Consequently, many UN resolutions on international trade and development issues came to be adopted by unanimous votes.

Although the changed Soviet stance toward the UN's work in this field has been appreciated by the less developed countries, it probably has not won as much sympathy as Moscow might have hoped. For one thing, the USSR's conception of the problems of trade and development has not completely coincided with that of the developing nations. Soviet representatives have stressed, for example, that the instability of world demand for primary commodities reflects deep-seated contradictions in the capitalist economic system and that these are aggravated by such Western devices as the embargo on strategic exports, American agricultural policies, and the creation of European regional economic groupings.<sup>44</sup> Yet, despite reiterations of support for "a system of automatic compensatory financing," the Soviets have not put forth any specific proposals which might serve as the basis for serious discussions. The USSR has also insisted that the Soviet process of achieving rapid economic growth, with emphasis on central planning and control, is the only real formula for development programs.<sup>45</sup> The tone of such

statements has varied with the mode of general Soviet policy since 1953, but the substance of the claims has largely remained unchanged. The effectiveness of these assertions is difficult to gauge. Yet, UN debates have shown time and again that regardless of how much the less developed states have been impressed with Soviet achievements, they have been unwilling to accept totally Moscow's interpretations or methods and, with few exceptions, they have generally continued to accord greater weight to the views of the West on matters concerning their economic welfare.

Equally important, while the USSR began to contribute to some UN development programs after 1953, notably the Expanded Program for Technical Assistance (EPTA), it has given no indication that it contemplates supplanting the United States as the major donor state. Even after the Soviet Union doubled its financial commitment to EPTA in 1961, at the same time that sixteen new African nations joined the Organization, its annual contribution remained through 1971 at \$3.5 million, or barely 3 per cent of the total. American contributions to EPTA and the affiliated Special Fund increased during the same period to reach \$86.2 million in 1971 alone, a steady share of 40 per cent.<sup>46</sup> Both superpowers have by-passed international agencies by resorting heavily to bilateral aid rather than multilateral aid. Nonetheless, the relatively meager Soviet commitment to UN programs and its apparent restrictive features, such

as distributing the bulk of contributions in nonconvertible currency, have served to dampen the enthusiasm with which the developing countries initially greeted the change in Soviet policy.

Perhaps the factor which most hampered the USSR's image in the United Nations as the provider and protector of the less developed countries was a number of initiatives, albeit belated, taken by the West to create new aid channels to accelerate development. As early as 1951 the developing states had begun to focus pressures on the industrially advanced states to agree to establish under United Nations auspices a capital fund which would make grants or long-term loans at low interest rates for pilot development projects. The original scheme was to create a Special United Nations Fund for Economic Development (SUNFED). The developing countries sought to establish the proposed fund within the framework of the United Nations, rather than that of a specialized agency such as the World Bank, because they wished to avoid the decision-making structure of the latter, in which votes are allocated on the basis of financial contributions and where the Western powers have predominant influence. Contributions to SUNFED, its many sponsors held, should come from all advanced states on the basis of 1 per cent of each state's Gross National Product,<sup>47</sup> an amount which continues to be far in excess of most national aid programs. The Soviet Union, the United States, and several

other advanced states at first opposed the SUNFED proposal, though for different reasons. Dominating the politics of all these important potential contributors were the burdens of the Korean War, the remilitarization in Europe, and the burgeoning costs of rearmament.

During the early 1950's the United States and its allies consistently rejected by declarations and votes the creation of SUNFED or any similar institution. As Western opposition stiffened, the USSR gradually took an equivocating tack toward SUNFED as part of a larger policy shift to improve relations with the developing countries in the new phase of the cold war--competitive coexistence. By 1955 the Soviet Union had succeeded in obtaining three important conditions on the nature of the proposed fund: (A) SUNFED should be financed through voluntary contributions rather than regular assessments; (b) it should make loans rather than grants; and (c) it should be entirely separate from the World Bank in which Soviet bloc states do not participate.<sup>48</sup> Moscow favored SUNFED starting immediately with an initial sum of \$100 million--considerably less than the \$250 million recommended by an ECOSOC ad hoc committee of experts<sup>49</sup>--provided that all major industrial states agreed. Soviet vocal support for a proposal enjoying enormous appeal among the developing countries made good politics, especially in light of Western opposition. But the USSR never specified how much it was prepared to contribute to SUNFED and it was

clearly loath to be the only potential donor. Alvin Z. Rubinstein, among others, has pointed out that had the Soviet Union been willing to translate its general support into a concrete and generous financial impetus to get SUNFED underway, it would have been the major underwriter of a UN program close at heart to the developing countries and already molded to its own liking.<sup>50</sup> Moscow's behavior suggests, however, that its only real concern in pushing SUNFED was to engender disillusionment with American aid efforts through the UN and thereby enhance the attraction of Soviet bilateral economic assistance. Moscow's failure to loosen its purse strings once the discussions reached a critical juncture may well have prompted the developing nations to treat subsequent Soviet statements on SUNFED and similar issues with considerable reserve.

Partly in compensation for its outright opposition toward SUNFED, the United States promoted the establishment of the International Finance Corporation in 1956 to accelerate economic development through private investment. Finding this step inadequate to assuage the feelings of the developing countries and to prevent the Soviets from further capitalizing on the SUNFED issue, the United States suggested the next year an alternative to SUNFED in the form of a "special projects fund" to supplement EPTA and provide types of assistance not possible under existing programs.<sup>51</sup> Although the less developed nations disliked the underlying

American motive, they did welcome an increase in the amount of capital available for developmental purposes and on January 1, 1959 the United Nations Special Fund commenced operations.

After the UN Special Fund was created, the SUNFED controversy continued to crop up under a new pseudonym, a United Nations Capital Development Fund. Again, partly to block pressures by the developing countries for a potentially expensive fund which would not be under the control of its major contributors, the United States and its Western allies made a series of accommodating moves throughout the United Nations system: the Commission on International Commodity Trade was reorganized to give special attention to the problems of developing countries; the developmental resources of the World Bank and the International Monetary Fund were expanded; the Fund began a study of compensatory financing to aid countries with balance-of-payments difficulties; and the International Development Association (IDA) was created in 1960 to make so-called soft loans. IDA was established, however, as an affiliate of the World Bank, and the same decision-making structure applies. These new aid channels made more resources available for purposes of economic development and some of it on easier terms. In this situation, until 1960, the General Assembly annually deferred to the Western opposition to an autonomous UN development fund.



In 1960, in contrast, the General Assembly decided "in principle that a United Nations Capital Development Fund shall be established."<sup>52</sup> The vote was 71 to 4, with 10 abstentions. The United States and several other advanced Western states, all important potential contributors, voted against the resolution or abstained. Although the Soviet bloc countries voted for the resolution, it was clear that the bulk of their contributions to the fund would be in nonconvertible currencies, as it was to EPTA. After 1960 the developing nations continued their pressure for a United Nations Capital Development Fund but without any immediate results due mainly to the continued opposition of the major Western powers. By the time the 1964 UNCTAD Conference was convened, though, this pressure had again reached significant proportions.

The Soviet Union's early appeals for UN action to facilitate the conduct of international trade in part were motivated by the difficulties encountered by most of the communist economies following their rapid industrialization drive of the late 1940's and early 1950's. The economic policies undertaken within the Soviet bloc during this period have been described as "war economy" measures.<sup>53</sup> With emphasis on growth, each socialist country attempted to develop simultaneously a variety of industries, paying little attention to the problems of agriculture and existing resources, or to comparative costs. Centralization of

planning and management in the Party machine and the use of extra-economic incentives were responsible for a situation in which rational economic accounting was largely ignored in favor of channeling a high level of investment into those industrial sectors which provided the sinews of future growth and also the basic defense potential. These tendencies naturally had their counterpart in the attitude towards foreign trade, which concentrated on imports needed to fill the gaps in domestic supplies and generally overlooked the advantages to be derived from an international division of labor. Ostensibly, the establishment of the Council for Mutual Economic Assistance (CMEA) in 1949 was designed to expedite some specialization in production among bloc members but, in fact, each member pushed toward individual self-sufficiency.<sup>54</sup> As a result of these policies, a fairly substantial industrial capacity began to emerge in the CMEA region by 1953. Yet it soon became obvious that this involved neglect of many economic desiderata.<sup>55</sup>

An imbalanced, autarkic process of growth and very similar patterns of industrial development gave rise to serious shortages in the communist bloc. Probably the worst of these was the growing shortage of fuels and raw materials. With the exception of the USSR and possibly Romania and Poland, the CMEA region is poorly endowed with natural resources. In the course of rapid industrialization hardly any attempt was made to expand the raw materials base

in Eastern Europe. The uneven distribution of essential resources among members of the CMEA group, together with the increasing requirements for primary commodities within the region as a whole, necessitated that measures be taken to secure these commodities through the development of domestic supplies, or through trade, or both.

For some years the Soviet Union had alleviated this shortage by delivering considerable quantities of fuels and raw materials to Eastern Europe in return for imports of other goods. By 1953, however, a number of factors rapidly intensified the difficulties under which the East European economies were laboring. In the first place, the USSR scarcely increased its supplies of primary commodities to Eastern Europe and became a more reluctant purchaser of machinery and manufactured products from that area. Second, the need to improve living standards everywhere, combined with continuing neglect of agriculture, raised import demands for food and other consumers' materials. Third, the slackening in industrial expansion reduced import requirements for capital goods and released resources for exports of machinery and equipment more or less simultaneously in each country. Finally, the deterioration of most East European countries' balances-of-payments was aggravated by the fact that past Soviet credits had generally been spent and repayments were becoming due.

Within this framework of growing Soviet and East

European concern with the need for a more balanced economic development, two basic expedients were available: to give greater attention to ~~non-~~<sup>non-</sup> industrial production, and to reduce some of the costs involved in ~~non-~~ industrial production by imports of primary commodities. Foreign trade, then, could serve as a supplementary means of keeping up a steady flow of raw materials for industry in the event of miscalculations or failures in supplies from domestic sources. Inasmuch as industrialization had enabled the communist economies to produce and export a relatively varied line of simple capital goods, the conditions for trade with primary-producing nations were enhanced.

These circumstances gave a powerful impetus to the reappraisal of former policies and were reflected in the striking growth rate of the Soviet bloc's foreign trade after 1950, exceeding that of world trade in general. While most of the increases were originally of an intra-bloc character, a reverse trend in expansion has been in evidence since 1953--i.e., a faster growth of trade with countries outside the bloc than of intra-bloc trade.<sup>56</sup> A further distinction can be made between Soviet and East European trade increases. The USSR's non-bloc trade has expanded principally with Western Europe in line with the relaxation of political tension and easing of trade controls that developed in the post-Stalinist era; its volume of trade with overseas countries rose only slightly between 1950 and

1956.<sup>57</sup> On the other hand, the trade of the East European countries with Western Europe registered relatively minor increases compared to those which appeared in volumes of trade with overseas nations, mainly Afro-Asian.<sup>58</sup> The East European trade turnover with developing countries exceeded that of the USSR in every year of the 1955-65 decade except 1963, and the most industrialized states of Eastern Europe--Poland, East Germany, and Czechoslovakia--engaged in more than half of the Soviet bloc's total trade with less developed nations over the same period.<sup>59</sup> Therefore, although most of the credits and technical assistance offered to these nations have been of Soviet origin, Eastern Europe has been the main force in the communist bloc's trade offensive in the Afro-Asian region. In view of the developing countries' demands for a shift in development resources from the category of aid to that of trade, this is perhaps of greater portent than the dramatic offers of credits made by the USSR.

Undeniably, commercial considerations alone have seldom been the primary motivation for communist trade with less developed nations. Rather, the expansion of Soviet bloc trade in the Afro-Asian region is more complex and has obvious political overtones. The planning authorities are certainly aware that smaller nations will be susceptible to politico-economic pressures as they become dependent on the communist bloc for sales of agricultural and raw material

surpluses as well as for imports of machinery and equipment. The political side of communist trade with developing nations has nowhere been so clearly illustrated as where the USSR has acted as a "buyer of last resort" for otherwise unsaleable goods. The classic examples of several years ago were Soviet imports of Egyptian cotton and Burmese rice. While these purchases were purely political in nature, the bulk of communist trade with developing nations has stemmed from a combination of economic and political factors.<sup>60</sup>

The decision to engage in trade on a new basis and to cooperate in this area of the UN's work, which might in any case have been taken as a result of the changed economic situation of the communist bloc, was prompted by the transformation in Soviet leadership following the death of Joseph Stalin in March, 1953. The composition of the expanded trade reflected the desire of Stalin's successors to consolidate power through an improvement in living standards within the region. Further, the post-Stalin leadership as a team clearly believed in the need of lessening the USSR's economic isolation and improving at least the tone of relations between the Soviet bloc and the outside world.

But it is possible that the USSR would have embarked on a new course and altered its policy in the United Nations even if Stalin had lived, and without regard for internal political considerations. Indeed, there were some harbingers of this shift prior to the Soviet dictator's death. As

early as May, 1950 Stalin had told UN Secretary-General Trygve Lie that "the charter of the International Trade Organization was a good one and that, with a few changes, it might well be ratified by a number of countries which had not previously done so, including the Soviet Union."<sup>61</sup> The USSR's initiative in calling an International Economic Conference at Moscow in April, 1952 to dramatize the theme of "peaceful coexistence through normalization of trade," together with the relative lack of polemics on the part of Soviet representatives there,<sup>62</sup> was a similar sign that Soviet policy perhaps was in the process of changing. Further, there was evidence of some shift in January, 1953 when the USSR agreed to join in trade consultations in the UN Economic Commission for Europe, thereby signaling the end of an East-West deadlock in that body.<sup>63</sup>

These moves were related to and accompanied by a major Soviet reevaluation during the closing phases of the Korean War of its policy towards the UN and the Specialized Agencies. If the USSR's policy in the international organization through 1952 can be interpreted largely as a divisive propaganda campaign against the capitalist West, this attack had been exposed as hollow; and once the UN acted with force of arms in Korea, the Soviet bloc was virtually an outcast. New tactics were also needed after 1952 because Moscow perceived the political importance of the Afro-Asian neutralist bloc and the complementary interests shared in many instances between this bloc and the Soviet camp.

Hence, the beginning of the USSR's recognition of the positive way in which the UN could be used, in alliance with the neutralist states, to advance Soviet foreign policy had its roots in the late Stalin period. These impending changes--and the Khrushchev courtship of the Afro-Asian countries--were to some extent foreshadowed in Stalin's last work, Economic Problems of Socialism in the USSR, published in October, 1952 and in the proceedings of the Nineteenth Congress of the Communist Party, which occurred that same month.<sup>64</sup> To be sure, the significance of such developments in Soviet affairs did not become clear until Nikita Khrushchev's accession to power in the spring of 1955 brought a vigorous thrust forward along the emerging "New Course."

Apart from the greater flexibility in Soviet policy after the death of Stalin, the USSR's initiatives in the trade field were also a reaction to developments in the international scene. Through the European Coal and Steel Community (ECSC), the European Free Trade Association (EFTA), and other devices, Western Europe moved toward integration. From the perspective of Moscow, the economic and possible political unification of Western Europe represented the most important phenomenon of the cold war.<sup>65</sup> A strong and prosperous Europe, either singly or in alliance with the United States, threatened the communist bloc not only with increased economic isolation but also with the eventuality of a new power configuration in world affairs. Moscow



further realized that a Common Market and a Free Trade Area in Western Europe might serve as a magnet for the uncommitted and less developed nations of Asia and Africa. Moreover, the West had progressed in the construction of international trade machinery through GATT, the Organization for European Economic Cooperation--later the Organization for Economic Cooperation and Development (OECD)--and other regional institutions. As neither development included the Soviet bloc, it was reasonable to expect that Moscow would attempt countermeasures. Thus, while the Common Market Treaty was being prepared, the Soviet Union posed an alternative in the Economic Commission for Europe in the form of a draft treaty for all-European economic cooperation.<sup>66</sup> The USSR advanced similar proposals in the Commission through 1962 in an obvious desire to capitalize on the developing difficulties between the Common Market countries and the "outer seven" states, or members of EFTA.<sup>67</sup> In 1960 the Soviet government suggested that it should be invited to join the negotiations concerning OECD; and in 1961 and 1962, it declared its willingness to sign the OECD convention.<sup>68</sup> In addition, once the Common Market showed signs of real success in the early 1960's, Moscow began to strengthen its counterpart organization CMEA as an instrument for absorbing the East European states into the Soviet economic complex.<sup>69</sup>

In light of Soviet non-membership in the World Bank

and the Fund, of the institutionalization of GATT and OECD without Soviet participation, and of the movement toward integration in Western Europe, the campaign for the creation of global trade machinery seemed a way of breaking Western traditional hegemony in international economic institutions and facilitating the conduct of East-West trade.<sup>70</sup> The matter of East-South trade, on the other hand, was less important in the Soviet scheme. While an international trade organization might also serve to expand communist trade and political influence with the less developed states, the Soviet bloc's most significant actions in this area took place on the bilateral level; that is, the negotiation of long-term trade agreements for the purchase of primary products. However, once the developing countries began their own concerted drive for establishing new trade machinery, East-South economic relations--rather than the East-West embroilment--became a matter of international concern.

#### The Developing Countries Seize the Initiative

Only a few countries had supported the Soviet Union's early appeals for a world economic conference that would deal primarily with East-West trade problems. However, with the upsurge of North-South conflict over trade and development issues in the early 1960's, a metamorphosis took place in the sponsorship and aims of the proposed conference. Now it was the developing nations, with the new nations in the forefront, that were clamoring for the

convening of the international trade conference. The birth of this massive pressure group in the United Nations was the culminating point in a series of closely connected processes which had been going on since the end of the Second World War but which were accelerated and intensified during the years after 1955. These processes included: (a) decolonization of Asia and Africa and the consequent membership explosion in the UN; (b) the political and economic awakening of the developing nations comprising the so-called Third World; and (c) increasing international concern over the needs and aspirations of these nations.

(a) The Expanding UN

The year 1955 marked not only the beginning of a new decade for the United Nations but also an important turning point in the Organization's history.<sup>71</sup> During its first ten years the UN was both in composition and in concept an organization of the West. Its original membership of fifty-one nations was made up of eight Western European countries; four old members of the British Commonwealth; twenty Latin American countries whose leadership maintained strong economic and political bonds with the United States; seven Middle Eastern countries, all with intellectual, commercial and, to some extent, political ties with Western Europe; only three Asian states; the USSR and its two constituent republics; three Eastern European states moved or being moved into the Soviet orbit; only two African

countries; and the United States, which emerged from the war a military colossus and an economic giant. The three communist members aside, this group of nations shared a remarkably wide basis of common thought, political tradition, and economic philosophy.

Only nine states were admitted to the United Nations between 1946 and 1950 and membership remained stabilized at sixty for the next five years. The new members comprised two Western European countries; six developing nations from the Middle East and Asia; and Israel. These accessions, while slightly increasing the voting strength of the developing nations and providing a somewhat larger audience for Soviet speeches on colonialism and the new American "imperialism," did not substantially change the power constellations within UN bodies or their preoccupations. Supported by a safe and generally overwhelming numerical majority in the Security Council, the General Assembly and the Economic and Social Council, the United States and its allies occupied a position of strength in dictating the purposes of the new Organization during its first decade.

However, by 1955 the rising tide of decolonization began to be reflected in the UN's membership. Sixteen states gained admission in that year, including four from Eastern Europe; five developing countries from the Middle East and Asia; and Libya, the first African nation admitted

since 1945. These additions gave greater resonance to the voice of Asia in the General Assembly and the Trusteeship Council in demanding an end to colonial rule. Pressures for more development assistance and better terms of trade were also mounting in the Economic and Social Council. As the American "mechanical majority" began to dissolve in all UN bodies, the demeanor of the USSR changed. Cooperativeness became the touchstone of Soviet actions and, as previously mentioned, the USSR increasingly voted for anti-colonial and economic resolutions "in the interest of unanimity," despite the defeat of its own proposals. Commentary within the USSR dealing with the UN suddenly became more favorable, stemming in large measure from Nikita Khrushchev's assumption on the basis of the strong anti-colonial sentiment expressed at the 1955 Bandung Conference of Afro-Asian countries that the interests of the developing Afro-Asian nations inclined more toward the communist than toward the capitalist camp.<sup>72</sup> By the end of 1955 it was clear that Soviet strategy, perhaps for the first time, explicitly aimed at exploiting the potential of the United Nations as an arena for competitive coexistence.<sup>73</sup>

Then came a period of relatively slow growth and change until the membership explosion in the early 1960's. Only seven states were admitted to the Organization between 1956 and 1959, with the exception of Japan all emerging nations of Asia and Africa. Moscow's expectations that the new

Soviet course would open opportunities for broad cooperation between communist and non-communist countries had proven somewhat illusory. By 1959 the isolation of the USSR had ended, but beyond that, the new Soviet strategy could only claim limited achievements.<sup>74</sup> Few Soviet proposals had been adopted and the USSR mostly joined, rather than mustered, majorities. Important UN resolutions on trade and development problems continued to be adopted on the basis of agreement between the developed Western states and the "moderate" less developed states. Although there were clearly identifiable interest groups on economic issues, negotiations and voting did not yet resemble a North-South confrontation.

With the massive influx of new African nations into the United Nations during the early 1960's, the pattern changed. The record year 1960 witnessed the admission of seventeen states, all African except for Cyprus. From that time the balance of voting power in the General Assembly has definitely shifted in favor of the developing countries. By 1964 another thirteen Afro-Asian states gained admission. Allowing for the decrease of one member consequent upon the union of Tanganika and Zanzibar into the United Republic of Tanzania in April, 1964, total UN membership at UNCTAD-I stood at 112 nations. Of these, eighty--about 71 per cent--were in the category of less developed countries, including fifty-eight from Asia and Africa and twenty-two from Latin

America.

Apparently Soviet leaders saw an opportunity in the changing composition of the UN to gain a new position in the Organization because Soviet policy underwent further revisions then. As early as July, 1960 the USSR announced the doubling of its contribution to EPTA, and within a few weeks Khrushchev proposed that flagging disarmament negotiations be discussed at the upcoming fifteenth session of the General Assembly and that UN members be represented by their heads of government.<sup>75</sup> It soon became evident that Khrushchev was determined to act in this capacity in any event. The Soviet Premier's long and discursive speech to the Assembly on September 23 indicated that an attack against colonialism would be the main vehicle in playing up to the expanding Afro-Asian bloc and attempting to secure its support.<sup>76</sup> Hopefully, the USSR's leadership established on this issue would enable it to achieve its purposes in other areas and to mold the Organization to its liking, including perhaps even reconstituting its principal organ, the office of Secretary-General, into a commission of three men, one representing the Western, one the neutral, and one the Soviet bloc. This was the noted troika proposal.

During the fifteenth and following General Assembly sessions, the USSR made limited progress toward some of its objectives but fell short of completely achieving any of them. The Assembly adopted resolutions on colonial and economic matters but not precisely the ones which the Soviet

Union had suggested. No action was taken on the USSR's "Basic Provisions of a Treaty of General and Complete Disarmament,"<sup>77</sup> and Khrushchev's expected bombshell--the troika plan--turned out to be a dud. In sum, riding the wave of anti-colonial sentiment would take the USSR only so far. This tactic probably enhanced the Soviet Role in the United Nations but it would not catapult the Soviet Union into a position of general leadership.

A review of membership growth is essential to an understanding of the new patterns established in the United Nations which have prevailed since then. Starting out in the postwar period as essentially an organization of the West, the UN became an arena in which East and West sought to gain favor and influence with the emerging nations of Asia and Africa. Emphasis then shifted to North-South relations as the poor countries of Latin America and the Middle East joined forces with the Afro-Asian countries to advance their collective interests in a frequently bitter confrontation with the industrially rich states to the North. Because the less developed countries tend to negotiate and vote as a bloc on major issues affecting their welfare, they potentially have absolute control over decision-making in the General Assembly and in the Economic and Social Council where two-thirds majority of the total membership is sufficient to carry any resolution. In this light, votes taken at the sixteenth and succeeding sessions of the Assembly



leading to the convening of the UNCTAD Conference were all but inevitable, as was the creation by that Conference of UNCTAD's permanent machinery.

(b) Emergence of the Third World

The political and economic awakening of the Asian, African, and Latin American developing countries in the aftermath of decolonization was accelerated by an almost continuous series of international conferences outside the UN framework which made these countries become increasingly aware of their collective interests. The roots of Afro-Asian collaboration, at least on an ad hoc basis, can be traced back to the efforts by these states in 1951 to mediate the Korean War.<sup>78</sup> However, the Bandung Conference in April, 1955 may be considered as the real beginning of a self-defined and self-styled association of Asian and African nations,<sup>79</sup> and certainly the first occasion for representatives of the two continents to meet together and discuss their mutual preoccupations. At Bandung the twenty-nine participating Asian (including China) and African states presented the problem of their economic advancement as an issue of international significance, and in the Final Act of the Conference, under the heading "Economic Cooperation," many items were included which nine years later would be on the agenda of UNCTAD. As a result of the events at Bandung, the anti-colonial movement became increasingly militant and the Afro-Asian group was formally recognized as a caucusing

group in the UN General Assembly at its tenth session the following year.<sup>80</sup>

The Bandung Conference also prompted the tremendous optimism which surrounded the initiation of the new Soviet approach to the nonaligned nations of Asia and Africa. Part of the buoyant feelings in Moscow was no doubt attributable to the USSR's economic and scientific successes in the immediately prededing years and to the East-West detente brought about by the Geneva summit meeting in the summer of 1955. Nonetheless, much of the Soviet leaders' evident optimism during this period can be explained by their conviction that the Bandung Conference represented an important manifestation of the fact that new forces had emerged to struggle for peace and against imperialism.<sup>81</sup> In the autumn of 1955 the duo of N.S. Khrushchev and N. A. Bulganin descended on the Orient and successfully toured India, Burma, and Afghanistan, paving the way for a thaw in Soviet relations with an Afro-Asian world long encrusted with Stalinist ice. At the same time, however, certain apprehensions must have lingered within the Kremlin. The USSR, although a might Asian power, had not been invited to Bandung and the Chinese, currently also in a mood of coexistence, had made strong overtures at the Conference to become the leader of all Asia, indeed of all the less developed regions. Though on the surface the policies of the two communist superpowers were synchronized, and the

Soviets greeted the Chinese moves with approval,<sup>82</sup> they could not have taken kindly to their exclusion from the new club of "anti-imperialist" states.

The African group within the Afro-Asian caucus started to take shape in 1957, but it owes its existence primarily to the notion of African solidarity proclaimed at the Accra Conference of Independent African States in April, 1958 and reiterated at the Addis Ababa Conference in May, 1963.<sup>83</sup> The participating states discussed matters of common concern --self-determination, racial equality and their African identity, economic development, and disarmament as well as the need to set up permanent machinery to facilitate intra-regional consultation and cooperation. At Accra sufficient agreement was reached on these matters to allow the African caucusing group to begin operating at the thirteenth session of the UN General Assembly in the Autumn of 1958; and at Addis Ababa the Organization of African Unity (OAU) was formed, one purpose of which was to further a united front of African states in the deliberations of both the Afro-Asian group and the United Nations generally.

The process of developing a distinct "Third World" identity from what continued to resemble for some time after Bandung a loose Afro-Asian confederation was furthered at the Belgrade Conference in September, 1961. With the exception of Yugoslavia and Cuba, all twenty-five participating states were either African or Asian, most of them

having taken part also in the Bandung Conference. This time, however, the common denominator was not just being African or Asian but being nonaligned to either cold war bloc. During this important Conference the initiative for calling a world economic conference was seized by the Yugoslavian Head of State, President Josif Tito, and acclaimed in the Declaration issued at the conclusion of the Conference.<sup>84</sup> The Belgrade Declaration also drew attention to "the ever-widening gap in the standards of living" between the few rich countries and the many poor countries; recommended "the immediate establishment and operation of a United Nations Capital Development Fund;" and demanded "just terms of trade" for the developing countries and efforts "to eliminate the excessive fluctuations in primary commodity trade."<sup>85</sup>

The Cairo Conference on the Problems of Economic Development in July, 1962 gave considerable momentum to the idea of convening an economic conference. Thirty-six states attended, all less developed and including some Latin American states for the first time in a conference of this type. The Secretary-General of the United Nations appointed Dr. Raul Prebisch, then Executive Secretary of the Economic Commission for Latin America, as an Observer, and several other international organizations were also represented.

The lengthy Cairo Declaration of Developing Countries

adopted at the Conference, for formal transmission to the UN General Assembly, stressed that "despite universal acknowledgement of the necessity to accelerate the pace of development in less developed countries, adequate means of a concrete and positive nature [had] not been adopted" and affirmed that the economic and social problems of developing countries should be solved "through common endeavor on the national and international planes and within the framework of the United Nations Charter." The Declaration included a number of recommendations on internal problems of development, cooperation among the developing countries, international trade, regional economic groupings, aid and technical assistance, and other matters. It urged that the developing countries should protect their common interests within GATT and strengthen the economic and social activities of the United Nations. In this connection the Cairo Conference declared itself "resolutely in favor of the holding of an international economic conference within the framework of the United Nations" and called upon the developing countries "to work for the convening of this Conference at an early date, in 1963." The Declaration further recommended that the agenda of the proposed conference should include "all vital questions relating to international trade, primary commodity trade, and economic relations between developing and developed countries."<sup>86</sup>

The Cairo Conference constituted the first attempt to coordinate the policies of Asian, African, and Latin American

developing countries with a view to acting together as a massive pressure group within the United Nations.<sup>87</sup>

Inasmuch as the participating states held conflicting views on most of the issues discussed, the mere fact that a Declaration setting out a common position was adopted added considerable significance to the Conference. The developing countries concluded the meeting in a spirit of solidarity and determination, with the conviction that joint efforts would make more rapid progress in international economic relations.

The Third World of Asia, Africa, and Latin America, including as it does most of the poorer and less developed countries of the world, is a relatively new phenomenon in world politics. The groups or alliances of the postwar international system, broadly speaking the First World of the United States and its Western allies and the Second World of the Soviet Union and its East European allies,<sup>88</sup> coalesced according to common political, ideological, and geographical traits, and were usually led by a great power. The Third World of developing countries, in contrast, is characterized by heterogeneous composition, large numbers spread widely over four continents, important political economic, and ideological differences, and the absence of leadership by a great power. The constructive role a country plays within the Third World generally depends on its special or active interest on the issue under consideration,

the ability and personality of its representatives, and its size and level of development. The leading nations involved in formulating the politics and ideologies of the Third World have been Yugoslavia, India, Algeria, Brazil, Nigeria, Pakistan, and the United Arab Republic.

Just as there is little practical internationalism within the First or Second Worlds, with the notable exception of the movement toward Western European economic unification, so there is little within the Third World, save to the extent that its members have found it useful to preserve a certain unity on major, all-embracing issues that enable them to gain general advantages without individual sacrifices. Modernization, anti-colonialism, and neutralism are the most important unifying issues and vitally affect the preoccupations and participation of Third World countries on the international scene. Asian, African, and Latin American states share a compelling desire for rapid economic development and social progress. Many have bitter recollections of colonialism and all share an abhorrence of neo-colonialism in its various forms. In terms of the lodestar of postwar international relations--the East-West conflict--the preponderant majority of Third World countries attempt, with varying degrees of consistency, to follow the lesson of the African proverb, "When two elephants fight, the grass gets trampled."<sup>89</sup> The United Nations is the best available platform for these states to exert pressure for genuine political and economic independence

and to advance claims for a greater share of the world's resources. They can be doctrinaire in ritual fashion but also diplomatic in ways which prevent the wholesale alienation of possible sources of advantage in the First and Second Worlds.

At the regional level modernization, anti-colonialism, and neutralism are indispensable pieces of statecraft, a set of ideologies without which a country may not be accepted in other Third World company, and a form of language in which much Third World discourse must be carried on. These issues generate emotional heat but they do not solve problems: they do not create any automatic harmony among countries having divergent languages and cultures, varying levels of development, and conflicting ambitions. One reflection of this underlying disunity is the existence of separate regional caucus groups in the United Nations, which give the Third World the appearance of an "unholy alliance."

(c) Increasing Concern over Trade and Development Problems

Once the principal tasks of relief and reconstruction had been accomplished in the postwar period, the problems of the less developed countries became the stock in trade of United Nations economic and social activities. However, it was not until the second decade of the Organization's history that significant attention and resources began to be focused on economic development. The timing of this increase is an indicator of the impact of the new member



states as both the sponsors and the clientele of UN development programs.

Of great portent for the future coalition of developing countries and their drive to hold an international trade conference was the emergence of a common view among these countries and their sympathizers concerning the nature of the problem of development. This view found expression in an increasing flow of international investigations and reports devoted to the special needs and aspirations of the developing countries which, in turn, stimulated the general interest.

Beginning in the early 1950's, the UN Secretariat and regional economic commissions began producing study after study from the Secretariat and the regional economic commissions oriented to discussion and documentation of the developing countries' economic problems. Yearly deliberations in the ECOSOC of the annual World Economic Survey (especially the 1955 volume covering the whole postwar period) gave support for what became the framework for all discussion; in the decade since the end of the Second World War the Western market countries had made fluctuating, unforeseen, but definite economic progress; the socialist economies seemed to do the same. But the less developed countries, despite technical and capital aid, had failed to share proportionately in the gains in world trade and economic development. The early view that stability in the

industrialized North would ensure stability and growth in the commodity markets of the South had been shown to be false; the gap between the rich North and the poor South was actually widening, not lessening. There was something wrong with classical trade theory. What was now required was a universal readiness to adopt practical measures aimed at making international trade a more powerful vehicle of economic development.

The linking of trade and development was stimulated by a series of political factors outside of the UN context. The most important was certainly the movement toward European economic unification through the creation of the Common Market and EFTA. Latin American states reacted strongly and Brazil became a leader in the drive for new action in the trade field. The United States, genuinely worried about the Common Market's effect on its own exports as well as on traditional Latin American ones, became an ally. Under the impact of Castro's rise in Cuba, the U.S. launched the Alliance for Progress at the Punta del Este Conference in 1961 and adopted many of the ideas developed within the UN Economic Commission for Latin America under Dr. Raul Prebisch's guidance.<sup>90</sup> While a desire to reap the benefits promised under the Alliance made Latin American countries cautious concerning matters on which there was a strong United States position, both parties had reason to look for new trade actions. And once Great Britain prepared

to apply for EEC membership after 1960, Commonwealth countries that had long enjoyed preferential treatment in the English market began to worry that this might be denied to them. There was therefore a number of Western or Western-aligned groups of countries with economic or political interest in discussing new trading arrangements. However, in view of the emerging lines of North-South conflict on trade matters within the United Nations, these groups would be wary of any action which threatened to subject existing trade patterns and machinery to the dictates of a new "mechanical majority" of Afro-Asian nations with the Latin American states as possible auxiliaries.

Slowly, by the turn of the 1960's decade, the conditions for a unified viewpoint on the trade-development link and the creation of a coalition of caucus groups on the issue came to the fore: Soviet prodding for a world economic conference, the entry of new states to the UN and their impact on the Organization's environment, reports on trade flows and trade mechanisms, the failure of the projected UN capital development fund, palliative moves in existing organizations, and regional developments in Europe. Added to this was the view espoused by UN officials themselves.

Discussion at the sixteenth session of the General Assembly in the autumn of 1961 centered on the problems of international trade. Philippe de Seynes, Under-Secretary for Economic and Social Affairs, opening the debate in the

Economic and Financial Committee, declared "not for a long time has the situation been so favorable to innovation." But he noted that most developments in the international economy had taken place outside the United Nations. The UN should not be content with a "residual competence." It must define a specific and effective role in formulating international trade policy. Current developments, "characterized by the proliferation of multilateral undertakings of limited scope, made a systematic study of the overall perspective more essential than ever."<sup>91</sup>

During the debate considerable concern was voiced about the possible discriminatory practices of regional trade groupings, and emphasis was laid on the need to increase the export earnings of the developing countries as part of a more systematic effort to promote their economic advancement. In this connection, attention was focused on a report by a group of experts appointed under General Assembly Resolution 1423 (XIV) to examine the feasibility of establishing machinery to assist in offsetting the effects of large fluctuations in commodity prices. The report, often referred to as the Posthuma Plan,<sup>92</sup> recommended the creation of a Development Insurance Fund (DIF) to provide a form of compensatory financing to ensure protection for developing countries against setbacks in their development caused by instability in world commodity markets. Although the DIF has not been established, the Posthuma Plan has made a strong impact on further discussions about compensatory

finance schemes.

There was widespread feeling among the socialist and Third World delegates that the concepts and institutions which had served as a framework for the development and liberalization of world trade were no longer adequate to cope with all aspects and problems of the existing situation. Two draft resolutions--one sponsored by six Latin American countries and the other by sixteen African countries and Indonesia--proposed that the developed countries follow certain appropriate policies to help the less developed countries and called for international meetings to determine what practical actions could be taken in the trade field. The Latin American text, inter alia, requested the Secretary-General to consult member governments on "the need for holding international meetings and conferences in order to find an effective solution to the problems affecting the trade of the developing countries...",<sup>93</sup> and the seventeen-country text, inter alia, requested the Secretary-General to prepare, after consulting member governments and with the assistance of a preparatory committee, "a provisional agenda for an international conference on world trade problems, including those relating to the primary commodity market...",<sup>94</sup> This paragraph of the draft had been introduced by Indonesia as a condition for becoming a co-sponsor. Since the two drafts were similar in many respects, the seventeen-country proposal was withdrawn on the understanding that the Latin

American draft would be modified to take into account the special proposals contained therein.

Nearly every provision of the revised Latin American draft<sup>95</sup> proved contentious. For example, a phrase about the developed countries' "recognizing their inescapable duty to accelerate the development of the less developed countries" had to be changed to "affirmed the recognized obligation...to cooperate in accelerating..." before the resolution could even be discussed. When debate came to the differences among developing countries, there were squabbles concerning the term "efficient" used to describe producers of commodity surpluses. The Common Market states, for their part, insisted on toning down all references to the harmful effects regional groupings might have. And the Soviet bloc, while applauding the Latin American initiative, deplored the fact that it failed to lay stress on the value of long-term bilateral trade, on the responsibilities of monopoly capitalism for the sorry condition of the less developed countries' situation, and on the need for a permanent International Trade Organization.<sup>96</sup>

The major bone of contention, though, was the original Indonesian proposal for the convening of an international trade conference. The revised Latin American draft did not mention such a conference, so that part of the seventeen-country draft which had concerned the conference was re-submitted by its sponsors as an amendment.<sup>97</sup>

The Western and many Latin American countries felt that the idea of holding a trade conference was "rather sudden." They emphasized the useful changes and new programs under way in existing agencies and argued that a general conference would only have the same kind of general results to be expected from the General Assembly's Second Committee. The United States and the United Kingdom pointed out that suggestions for an agenda prejudged the issue of whether or not to have a conference. They held that it would be better to stick with the revised Latin American draft, to let the Secretary-General decide with member states on the possibility of first organizing smaller meetings between existing or potential trade areas.<sup>98</sup>

In the course of the debate Tunisia added an amendment requesting the Secretary-General to consult member governments on the desirability of holding a trade conference and, if it were to be held, on the essential items to be included in an agenda.<sup>99</sup> The amendment was approved in committee by a vote of 45 to 36 with 10 abstentions, the Western countries and some Latin American countries being among those opposing it or abstaining. The Latin American draft, as amended, was then adopted as a whole by a vote of 81 to none, with 11 abstentions by the major Western trading nations.<sup>100</sup>

When the draft resolution reached the plenary session of the General Assembly, the opposition of the Western powers made itself felt. Without cooperation on their part,

the proposed conference would obviously come to nothing, since it was to the West that most of the demands would be addressed. Consequently, the Asian and African countries accepted separation of the two parts of the Tunisian amendment, i.e., the consultation, and the preparation of a list of possible items for an agenda.<sup>101</sup> In this way the text presumably no longer "prejudged" the issue of whether there would be a trade conference. Since the Secretary-General would report in a year, any possible conference was deferred for that time, and then the issue could again be discussed. The final draft of the resolution, requesting the Secretary-General to consult member states on the advisability of holding an international trade conference and, should they deem such a conference advisable, on the topics to be considered for an agenda, was adopted unanimously by the General Assembly on December 19, 1961.<sup>102</sup> This marked the first concrete step towards the convening of what was later to be called the United Nations Conference on Trade and Development.

It is worth noting that the resolution, entitled "International trade as a primary instrument for economic development," was adopted at the same time that the Assembly, acting on an initiative of the late U.S. President Kennedy, decided unanimously that the 1960's should be designated a United Nations Development Decade. It set the attainment of a minimum annual rate of growth of five per cent in national



income by all developing countries as the target for achievement by 1970.<sup>103</sup>

Early in 1962 the Secretary-General consulted by letter the member governments to see whether a trade conference would be desirable. Of the sixty-six replies received, forty-five were favorable, eighteen were lukewarm or opposed, and three states expressed no objection to the proposed conference. The favorable replies included those of the Soviet bloc, all of the developing countries except for Colombia and Nicaragua, and that of the Holy See. The noncommittal replies were those of Greece, Japan, and Sweden. The major trading nations were still opposed to the conference. Yet, their replies were stated in terms which did not preclude a possible change in their position.<sup>104</sup>

#### The ECOSOC Decides to Convene the Conference

At the thirty-fourth session of the Economic and Social Council at Geneva in July, 1962 the results of the Secretary-General's survey were discussed. Several delegates had traveled straight from the Cairo Conference on Problems of Economic Development, whose communique expressed the need for a world economic conference. It soon became apparent that the major trading nations were prepared to give way to the prevailing opinion and acquiesce in the holding of the trade conference, providing that agreement could be reached on the agenda and the date. By all accounts this change in the West's position was prompted by the United States'

decision that continuing opposition would be construed as simple negativism, would play into Russian hands, embitter the Afro-Asian countries, and in general be fruitless. Once the American delegation accepted the conference, other Western and Latin American countries followed suit, and the convening of UNCTAD was assured.

On July 26 five developing countries submitted a draft resolution to the ECOSOC's Economic Committee which, inter alia, provided for (a) the Council to convene a United Nations Conference on Trade and Development; (b) an eighteen-member preparatory committee to meet in the early spring of 1963 "to consider the agenda and documentation of the conference with particular reference to the problems of the developing countries", and (c) the preparatory committee to report back to the Council at its summer session in 1963.<sup>105</sup> When discussion began in the Economic Committee the new consensus of the major trading nations was immediately apparent in the statement of the American representative. The United States "had been impressed by the constructive attitude adopted by the sponsors of the draft resolution" and felt that the text presented "a wise and careful approach" to the convening of the conference. He stressed that the conference should be focused on the trade problems of the developing countries and should not attempt to cover the whole field of world trade. The United States would support the proposal "with a fair degree of optimism."<sup>106</sup> On the

next day the Committee approved unanimously the draft resolution, and it was similarly adopted by the ECOSOC on August 3, 1962.<sup>107</sup> Thus the decision to convene UNCTAD was formally taken.

One incident reveals the hesitant nature of Western policy in these circumstances. At the beginning of the same session of the Economic and Social Council the United States, Japan, and Uruguay introduced a draft resolution requesting the Secretary-General to appoint a group of experts charged with reviewing the activities of existing organizations in the international trade field, identifying the areas in which duplication existed or might arise, and making recommendations for any desirable institutional change.<sup>108</sup> The United States maintained that its draft was "an independent initiative" and should be considered "irrespective of the final decision of the Council regarding a world trade conference." Later, after the resolution to convene UNCTAD had been formally accepted, the American representative noted that there might be a certain relationship between his government's proposal and the one to convene UNCTAD and suggested that the report of the group of experts "would be a useful document in the agenda of the conference." The Afro-Asian countries, supported by the Soviet Union, expressed doubts about the value and objectives of the American proposal. The Council did approve the resolution by sixteen votes to none, with one abstention, the USSR.<sup>110</sup> Ironically, this tactical, face-saving American

move resulted in meetings of a group which in turn produced one of the most important UNCTAD documents.<sup>111</sup> The report served as the framework for all further discussion of institutional change in the trade field and in it the basic idea of UNCTAD's permanent machinery was set forth as one of four alternatives.

#### The Assembly Settles the Arrangements for the Conference

While the Economic and Social Council had formally decided to hold UNCTAD, and a Preparatory Committee had been established, much remained unsettled. No decision had been reached on when and where UNCTAD would take place, who would attend it, what it would discuss, how it would be organized, and other arrangements. These matters were taken up on a priority basis at the seventeenth session of the General Assembly in 1962, at which time the Cairo Declaration of Developing Countries was also included on the agenda. In view of the close connection between these two items, the Economic and Financial Committee decided to consider the convening of UNCTAD in conjunction with the Cairo Declaration.

In submitting the Declaration to the Committee, the representative of the United Arab Republic, Mr. Abdel M. Kaissouni--who had presided over the Cairo Conference--stressed that the Conference had been "a pioneering effort by the developing countries...who, notwithstanding differences in ideology, had found that their economic problems were

generally similar in nature though different in degree." He noted that, internally, those states were striving to increase their income by developing their resources and carrying out production plans, while at the same time striving toward social justice and equality for all. Externally, they faced the problems of diversifying their exports, expanding their markets, seeking better terms of trade, and securing the foreign exchange needed to implement their development programs. The Cairo Conference had led to greater understanding among its participants and it had strongly urged the holding of an international economic conference within the framework of the United Nations.<sup>112</sup>

During the general debate in the Economic and Financial Committee practically all countries supported the ECOSOC's decision to convene the UNCTAD Conference and none openly opposed it. Two concrete proposals were submitted: one by the USSR and the other by eighteen developing countries. The Soviet Union's draft resolution provided that (1) an International Conference on Trade Problems should be called in 1963; (2) it should consider "the establishment of an International Trade Organization, the elimination of discrimination in matters of foreign trade, and fair prices for raw materials and manufactured goods"; (3) all states that wished to do so should take part; and (4) a group of experts should be appointed by the Secretary-General to prepare the questions to be considered at the Conference.<sup>113</sup>

The eighteen-nation draft resolution proposed that the General Assembly should (a) endorse the ECOSOC's decision to convene a United Nations Conference on Trade and Development; (b) recommend to the Council that (i) the Conference be convened by June, 1963; (ii) the Preparatory Committee be enlarged to thirty members; and (c) request the Secretary-General to appoint a Secretary-General of the Conference. The draft resolution further proposed that the agenda for the Conference should include, inter alia, "methods and machinery to implement measures relating to the expansion of international trade."<sup>114</sup> The committee took the second proposal as the basis for discussion; consequently the Soviet draft was not pressed to a vote.

The sponsors of the eighteen-power draft resolution faced a difficult task in steering their proposal through some of the most complex negotiations ever conducted within the confines of the General Assembly. Language had to be found which would be acceptable to their colleagues among the developing countries, the major trading states of the West, and the Soviet bloc. The Committee's debate was temporarily halted several times to allow informal intensive negotiations on a number of key issues, particularly institutional questions, regional economic groupings, East-West trade problems, the size of the Preparatory Committee, and the date of the Conference. Discussion of these issues produced a plethora of amendments and sub-amendments to the

developing countries' draft resolution which, in turn, went through two major revisions. There is no need to summarize in detail the debates in the General Assembly and its Economic and Financial Committee.<sup>115</sup> For purposes of revealing the group pressures within the context of the United Nations which finally led to UNCTAD in its present form, however, several points should be made.

In the first place, the general reluctance of the West to be bothered with a trade conference forced the developing countries to temper demands that would be unacceptable to the major trading states. Newer African and Asian countries pressed for a wide-ranging agenda that would delve into the very heart of the existing world trading system, while older and more "moderate" developing countries worked for compromises. Both in these early debates and in the later Conference proceedings at Geneva, the Yugoslav and Indian representatives in particular played an undogmatic, mediating role, frequently intervening with suitable formulas for mutual concessions. Some Latin American countries, with the notable exception of Brazil, were lukewarm toward the idea of UNCTAD and also steered a middle course.

Early deadlock between the major trading states and the developing countries threatened to grip the debate on two important questions: the question of creating a comprehensive International Trade Organization and the matter of East-West economic relations. Some developing countries

wanted a more specific phraseology in the eighteen-power draft resolution concerning institutional arrangements than "methods and machinery to implement measures relating to the expansion of international trade." Brazil, Iraq and Lebanon thus proposed an amendment replacing this sub-paragraph by the following:

"Measures to improve the methods and machinery of international economic cooperation in the field of trade, including:

- (i) A reappraisal of the effectiveness of the activities of existing international bodies dealing with international trade in meeting trade problems of developing countries, including a consideration of difficulties in their trade relations arising from uneven levels of economic development and/or different systems of economic organization and trade;
- (ii) The advisability of eliminating overlapping and duplication by coordination or consolidation of the activities of such bodies, of creating conditions for expanded membership and of effecting such other organizational improvements as may be needed to expand international trade and to maximise the beneficial results of trade for the promotion of economic development."<sup>116</sup>

Burma suggested as a sub-amendment that among the "organizational improvements and changes as may be needed" referred to in (ii) above, the draft resolution should specify "the advisability of establishing a United Nations agency for international trade."<sup>117</sup> In a second sub-amendment Syria proposed that the "reappraisal of the effectiveness of the activities of existing international bodies" in meeting the trade problems of developing countries should include the



"consideration of the development of trade relations among countries with uneven levels of economic development and/or different systems of economic organization and trade",<sup>118</sup> rather than limit the study of East-West trade relations to the effects it had upon the trade of developing states as in the original text.

The sponsors of the amendment promptly accepted these revisions, and the sponsors of the draft resolution incorporated the amendment and sub-amendments into a revised text except for the explicit mention of the international trade agency. The representative of Yugoslavia, speaking on behalf of the sponsors of the draft, explained that the omission of any reference to a new international trade organization "should be interpreted exclusively as a recognition of the need that no provision should be made of a nature which might prejudice the entire issue before an extensive study of the whole matter has been undertaken."<sup>119</sup>

In fact, while the great majority of the less developed countries felt that the Conference should seek an improvement of institutional mechanisms either by evolution of existing ones or by setting up new machinery, some were opposed to the idea of establishing a full-fledged International Trade Organization. Two considerations weighed heavily in this matter. As the representatives of older developing countries cautioned, the main task of the Conference should be to set up an institution that would be devoted to the specific problems of the poor nations; the debate should not be

diverted to the immediate creation of an all-emcompassing, universal trade organization. The UN Conference on Trade and Employment in 1947-48 had shown how much time was needed to succeed in drawing up a text like the Havana Charter or to establish any new agency.<sup>120</sup> For them it was important to get the process started and to build the organizational structure in stages. Moreover, it was clear that proposals to discuss institutional arrangements, particularly the setting up of an ITO, caused considerable apprehension in the West. Concessions were necessary to ensure that the West would participate in the Conference, since it was to the major trading states that most of the demands would be addressed. Thus, deferring to the West, no resolution or agenda item ever mentioned the creation of new institutions in the trade field.

The ECOSOC resolution to hold the Conference--though not the precise form the Conference eventually took under the developing countries' direction--acceded to a long-standing Soviet goal. Moscow strongly supported this UN action as being "a major event in contemporary international relations." Just weeks earlier, at a reception honoring President Modobo Keita of Mali, Khrushchev had coupled denunciation of the Common Market, which he said threatened the new African states, with another demand for a world trade conference.<sup>121</sup> What Khrushchev apparently had in mind was a meeting along the lines of the International Economic Conference which was held at Moscow in 1952 to lay the groundwork

for an expansion of East-West trade.<sup>122</sup> Now, during the negotiations at hand, the USSR and its allies tried to put their familiar items on UNCTAD's agenda: discrimination in East-West trade, the immediate establishment of an ITO, the uses of money saved by total disarmament. Time and again, the leaders of the developing countries blocked these, proposing instead ambiguous wording that they insisted would allow discussion of what interested the Russians. On this, they acted with near unanimity, striving to appease the all-important Western trading powers, seeking to avoid sterile cold war debates, confident that the Soviet bloc would not back out of a conference of such obvious importance to itself and to the developing countries.

When most of the key issues had been satisfactorily settled, there remained the question of the date of the Conference for which no solution had been reached. The problem hinged on the timing of the Kennedy Round of tariff reductions within GATT, slated for the early part of 1964. The developing countries wanted UNCTAD to take place before these trade negotiations created new political and economic patterns, and they also felt bound by the Cairo Declaration which had specifically requested that the Conference be held in 1963. In retrospect, the Kennedy Round proved of little or no importance in the matter because of the delays which took place in the preparation and initiation of the tariff agreements. At the time, however, the issue led to long and acrimonious debates between the developing countries,

supported by the Soviet bloc, who demanded that UNCTAD be convened "no later than September 1963" and the Western countries who, insisting that the Conference "must be well prepared beforehand," proposed that it should take place in early 1964.

It was impossible to reconcile these positions within the Economic and Financial Committee, and the lack of agreement on this particular question ultimately determined the result of the Committee's vote on the whole draft resolution. The resolution, which reflected the less developed countries' position on the Conference date, was approved by a vote of 73 to 10, with 23 abstentions.<sup>123</sup>

On December 8, 1962 the General Assembly in plenary considered the twenty-eight power Committee text, sponsored mainly by Asian and African countries but whose spokesman was again Yugoslavia. Two amendments--one by Canada and Peru and the other by Bulgaria and the Byelorussian SSR--were submitted. The first, whereby the General Assembly would recommend that the Economic and Social Council should convene the Conference "as soon as possible after [its] thirty-sixth session...but in no event later than early 1964" was accepted.<sup>124</sup> The major trading states had made it clear that they would refuse to come to a conference before 1964, and the French veto of British entry into the EEC, which reduced the Kennedy Round's potential effect on the less developed countries' exports, had diminished the importance

of the timing of UNCTAD. The second amendment, calling for the participation of "all states" in the conference,<sup>125</sup> was rejected and therefore the standard formula that invitations be sent to members of the United Nations, of the specialized agencies, and of the International Atomic Energy Agency was maintained. The resolution as a whole was then approved by a vote of 91 to none with 1 abstention.<sup>126</sup> UNCTAD, the object of rather bitter East-West-South contention, had passed the first hurdle in the long-term process of bringing about changes in the patterns and structure of world trade. Ten days later the General Assembly, by adopting unanimously a resolution "welcoming" the general approach of the Cairo Declaration to the problems of trade and development,<sup>127</sup> lent a mien of international legitimacy to one side of that tripartite conflict.

#### The GATT Issue

Whenever the convening of a world economic conference was discussed, and particularly when institutional matters were considered, the debate sooner or later centered on GATT, which became the prime target of proponents for creating new machinery for international trade cooperation.<sup>128</sup>

It may be recalled that GATT came into being as a stop-gap arrangement to begin multilateral efforts at trade liberalization pending the establishment of the proposed International Trade Organization. It was only natural that, with the abandonment of the ITO project after 1950, GATT

should be called upon to fill the institutional vacuum. The General Agreement was subsequently broadened in scope, its institutional framework was strengthened, and its operations evolved to provide a badly needed element of stability in world trade. The mere fact that GATT could be considered the central international organization in the field of commercial policy attested to its accomplishments.

During the early years of its existence, GATT's contribution to the normalization of the world economy was indubitable. It proved to be an effective mechanism which brought about the successful negotiation of no fewer than 60,000 tariff concessions by 1955. The impression grew, however, that thereafter tariff negotiations produced diminishing returns. The developing countries, in particular, indicated increasing disappointment with several aspects of GATT's operations. They pointed to the fact that GATT's membership was much smaller than that of the United Nations and that several developing countries and most socialist countries had taken no part in its work. It was held that GATT had been shaped by the interests of the industrialized West and that, although the agreement regulated nearly 80 per cent of world trade, this trade was limited essentially to that of the Western states among themselves.

Moreover, the General Agreement did not contain provisions regarding international trade in primary commodities and, owing to its statutory limitations, the Agreement

did not provide adequate mechanisms to bridge the gap between the exports of the less developed countries and those of the industrialized countries. On the contrary, the basic principle underlying the philosophy of GATT, that of reducing trade barriers on a reciprocal and mutually advantageous basis, rested on the fiction that all nations have equal economic bargaining power.

In addition, tariff concessions--the raison d'etre of the Agreement--were being frustrated or nullified by the widespread application in the industrialized states of quantitative restrictions on imports of commodities in order to bolster a system of agricultural protectionism. The less developed countries, for their part, did not begin to act in concert earnestly until 1963 when the GATT Action Program was formulated. Before then, these countries individually had shown reluctance to invoke the provisions designed to contest non-tariff devices because of doubt as to whether a country's economic power in relation to that of another applying the offensive measure would, even with the formal sanction of the Contracting Parties behind it, be sufficient to correct the situation. Furthermore, if retaliation did occur, it could lead to a downward balancing of mutual obligations and benefits.

In some instances, developing countries had not sought to become members of GATT or had decided to opt out of GATT because of the feeling that acceptance of the General

Agreement would involve them in the payment of an excessively heavy "entrance fee" in the form of trade concessions or in other commitments which later could hinder their diversification plans. These countries had favored instead across-the-board trade preferences on their behalf which would change the basic disequilibrium between industrial rich and agricultural poor. On the other hand, since GATT operated on the basis that tariffs should constitute the main instrument of national commercial policy, the centrally-planned economies of the Soviet bloc--in which tariffs play a far different role than in countries with predominately free-market economies--had remained outside of GATT. The Agreement, therefore, did not provide opportunities to establish direct channels for trade negotiations with socialist countries.

In short, many of the developing and the socialist countries considered GATT unsatisfactory as a common forum because it was essentially a "closed club" of rich countries whose advocacy of trade principles and rules simply internationalized protectionism, and because it did not provide an adequate framework for the regulation of trade between countries at various levels of economic development or with different economic and social systems. These countries felt, therefore, that only a more universal and dynamic institution could cope with the interrelated problems of trade and development in a systematic manner.



When these questions were raised within GATT and various UN economic forums, the major trading states asserted that the General Agreement, together with a body of case law built up by the Contracting Parties, constituted a code of conduct covering virtually the whole field of international commercial policy. The valuable role GATT played in maintaining general trade stability and avoiding the recrudescence of beggar-my-neighbor policies was of particular importance for the developing countries if they were to achieve their development plans. While the picture was far from satisfactory regarding the elimination of fluctuations in world commodity markets, this was not seen to be a matter of institutional deficiencies. Methods of negotiating and operating commodity agreements had been worked out, opportunities for discussing commodity problems were extensive, and investigation of the problems of commodity stabilization had been thoroughly conducted. The fact that useful work within the competence of an organization like GATT was not always brought to a successful conclusion was frequently due, not so much to the structure or organizational machinery, as to the inability of the governments themselves to agree on a course of action. No international institution, under any auspices, could function better than the governments concerned allowed it to function.

The Western states also emphasized that GATT had shown increasing awareness of and concern with the problems of the

developing countries. Sustained efforts had been made to accommodate certain principles inherent in the philosophy of the General Agreement--such as that of full reciprocity--to the needs of the less developed countries. Special rules for trade negotiations, intended both to increase the number of participating countries and to broaden the range of products subject to regulation--had been introduced. Most importantly, GATT had come to recognize and act upon the interrelationship between economic development and world trade. On the basis of the findings of an investigation prepared in 1958, the "Haberler Report" on trends in international trade,<sup>129</sup> GATT had initiated a Trade Expansion Program and subsequently a Program of Action, which laid stress on the promotion of the exports of the developing countries.

The Program of Action,<sup>130</sup> endorsed with reservations by the Contracting Parties to the General Agreement at the May, 1963 ministerial meeting, involved coordinated arrangements to facilitate the diversification and expansion of the export capacity of the less developed countries. Specifically, it contained the following major points: a freeze on new tariff or non-tariff barriers applicable to products of particular interest to the developing countries; elimination of quantitative restrictions inconsistent with GATT provisions on imports from these countries; duty-free entry for tropical products; elimination of tariffs on primary products important in the trade of the developing countries; reduction and

even the elimination of tariffs on semi-processed products from these countries; progressive reduction of internal fiscal charges and revenue duties on products wholly or mainly produced in these countries; and reporting procedures to help ensure implementation of the Program. Also, during the course of the next year a center to provide the less developed countries with trade information and trade services was established in GATT.

In a nutshell, the Western states argued that the description of GATT as "a rich man's club" no longer applied. The General Agreement was considered to govern around eighty per cent of world trade and, in fact, twenty newly independent nations having acceded to GATT by 1963, the developing countries parties to the General Agreement outnumbered the industrialized countries by two to one. Moreover, GATT had shown awareness of the trade and development problems of the less developed countries; if the Action Program could be fully carried out by all countries concerned, a very important step forward would have been taken.

The preponderant majority of the developing countries contended that the revisions introduced in the General Agreement appeared "like minor patching operations" and that the time had come to "re-examine from the very foundations upwards the whole structure of ideas which find their legal and constitutional expression in the GATT."<sup>131</sup> It was noted that, while the intention of the Agreement was to secure

non-discrimination in world trade, the Agreement had not prevented de facto discrimination against the exports of the less developed countries. To remedy the inequalities of the situation, GATT should depart from across-the-board application of the principle of non-discrimination in order to allow the industrialized states as a whole to grant special most-favored-nation treatment to the products of the developing countries. With respect to the GATT Action Program, the developing countries regarded its provisions as minimal, pinning their hopes on more flexible trade preferences to be conceded by the industrialized states in the future. The developing countries also expressed skepticism about the eventual scope and outcome of the Kennedy Round, pointing out that previous attempts to improve negotiation terms and secure better results for the less developed countries had, in practice, failed.

In point of fact, GATT's endorsement of the Program of Action had been a formal gesture masking deep divisions within the membership, particularly between the Common Market countries and the other industrialized countries. The latter, with the United States and the United Kingdom in the lead, had begun to show considerably more sympathy for the cause of the developing countries and had agreed to the Program, subject to reservations safeguarding their other obligations and their rights within GATT. The two Western powers were not unreceptive to the argument that strict

reciprocity was not to be expected in tariff concessions between developed and less developed countries. But they did hold that the reduction of trade barriers should be sought within the framework of the projected Kennedy Round since some element of reciprocity could then be more easily maintained. The Common Market states and especially France, on the other hand, while endorsing in principle the objectives of the Program, argued that solutions to the problems of the less developed countries should be sought, not through an extension of the principles of free trade, but through increasing prices by the organization of commodity markets.<sup>132</sup> The division between the two groups reflected the non-discriminatory GATT approach and the discriminatory Common Market approach, a conflict that was to reappear at UNCTAD. The developing countries naturally did not welcome the reservations entered into the Action Program by virtually all the industrialized states; hence they felt little inclination to defend the General Agreement during the Preparatory Committee meetings for UNCTAD which began shortly after the May, 1963 GATT ministerial meeting.

On the eve of UNCTAD the position of GATT was as follows: the Program of Action was hardly on its way, the projected Kennedy Round was in a preparatory stage, and the principle of full reciprocity in tariff concessions continued to underlie the philosophy of the General Agreement. Under the existing GATT rules therefore, and this is important in view

of various proposals discussed at UNCTAD, the granting of new tariff preferences by the industrialized states in favor of the exports of the developing countries was still out of the question. Thus, despite GATT's official recognition of the urgent need for new trade and development policies, the gap between intent and performance seemed as wide as ever.

NOTES TO CHAPTER II

<sup>1</sup>See: Raymond F. Mikesell, "Negotiating at Bretton Woods, 1944," in Raymond Dennett and Joseph E. Johnson (eds.), Negotiating with the Russians (Boston: World Peace Foundation, 1951), pp. 101-116.

<sup>2</sup>The key literature on early Soviet attitudes and policies toward the UN's economic and trade activities includes: Willis C. Armstrong, "The Soviet Approach to International Trade," Political Science Quarterly, vol. LXIII, no. 3 (September 1948), pp. 368-382; Alexander Dallin, The Soviet Union at the United Nations (New York: Praeger, 1962); Harold Karan Jacobson, The USSR and the UN's Economic and Social Activities (Notre Dame, Indiana: University of Notre Dame Press, 1963); Philip E. Moseley, "Soviet Union and the United Nations," International Organization, vol. XIX, no. 3 (Summer 1965), pp. 666-677; Alvin Z. Rubinstein, The Soviets in International Organizations: Changing Policy Toward Developing Countries, 1953-1963 (Princeton, New Jersey: Princeton University Press, 1964); and Jan F. Triska and David D. Finley, Soviet Foreign Policy (London: Macmillan Company, 1968), chapter X.

<sup>3</sup>Jacobson, cited above at 2, pp. 108-110 and 112-113.

<sup>4</sup>Mikesell, cited above at 1, pp. 103-106.

<sup>5</sup>United States Department of State, Proposals for the Expansion of World Trade and Employment, Publication 2411, Commercial Policy Series 79, November, 1945. For a detailed account of the background and negotiations relating to the ITO, see: Clair Wilcox, A Charter for World Trade (New York: Macmillan Company, 1949).

<sup>6</sup>UN, ECOSOC Document E/22.

<sup>7</sup>UN, ECOSOC Resolution 1/13.

<sup>8</sup>William Adams Brown, Jr., The United States and the Restoration of World Trade (Washington, D.C. Brookings Institution, 1950), pp. 142-143; and Wilcox, cited above at 5, pp. 101-102 and 162-164.

<sup>9</sup>For an authoritative analysis, see: William Diebold Jr., "The End of the I.T.O.," Essays in International Finance, no. 16 (Princeton, New Jersey: Princeton University Press, 1952).

<sup>10</sup>Before the Second World War the USSR accounted for about 7 per cent of total world trade, and in 1953 for about 9 per cent. This slight increase was due almost entirely to an expansion of Soviet trade with the East European countries and with the People's Republic of China. See: UN, Economic Commission for Europe, Economic Survey of Europe in 1954 (Geneva, 1955), pp. 110-113.

<sup>11</sup>The problem of fitting state-trading into a liberal trading system was hardly a new one in the postwar period. See: Jacob Viner, Trade Relations Between Free-Market and Controlled Economies (Geneva: League of Nations, 1943).

<sup>12</sup>Articles 29 and 31 of the Havana Charter essentially subjected state-trading enterprises to the same commercial policy provisions that applied to the public regulation of private trade. The clear intent of these rules was to prohibit state-trading agencies from using their powers of discrimination to serve political, rather than economic, ends. For a discussion of these provisions, see: Wilcox, cited above at 5, pp. 94-102 and 205-206.

<sup>13</sup>UN, ECOSOC, Official Records (7th Session), pp. 322-330, at 322.

<sup>14</sup>See the series of articles by L. Frei, "The International Trade Organization," Vneshnyaya Torgovlya /Foreign Trade/ (Moscow), no. 2 (February 1948), pp. 17-25, and no. 3 (March 1948), pp. 22-28. See also: E. Varga, "The Geneva Trade Talks," New Times (Moscow), no. 20 (16 May 1947), pp. 4-9.

<sup>15</sup>The development of GATT is described in Raymond Vernon, "Organizing for World Trade," International Conciliation, no. 505 (November 1955), pp. 163-222; and UN, Bureau of Economic Affairs, "The Quest for Free Trade," Document E/2737.

<sup>16</sup>See: "International Machinery for Trade Cooperation," Report by the Secretary-General, ECOSOC, Official Records, (22nd Session), Annexes, Document E/2897, pp. 42-62.



<sup>17</sup>For an analysis of the debate surrounding the OTC proposal, see: "Issues Before the Eleventh General Assembly," International Conciliation, no. 510 (November 1956), pp. 97-236.

<sup>18</sup>Czechoslovakia is a member of GATT, but it joined before falling completely under communist control. Poland and Yugoslavia have also participated in GATT since 1959 under a special arrangement which does not carry with it the privileges of full membership.

<sup>19</sup>As a result of developing country and Soviet criticisms that ECOSOC was too small and represented only the vested interests of the "colonial rich," the Council's membership was enlarged from eighteen to twenty-seven in December, 1963. As to composition the balance of power shifted decisively to the developing countries: seven seats from Africa; five from Asia; five from Latin America; seven from the West, including the United States and Canada; and three from the Soviet bloc. The developing countries thus achieved a majority of seventeen out of twenty-seven in a body which takes all votes by simple majority. By the same token, most of ECOSOC's functional commissions and committees have also been enlarged with seats distributed to assure the developing countries built-in majorities.

There is some encouraging evidence that this development has lessened opposition to the Council and that it will be better able to discharge its supervisory tasks in the future. Nevertheless, as will be shown, the establishment of UNCTAD has created new problems of institutional fragmentation in the international economic field.

<sup>20</sup>"Commodity and Trade Problems of Developing Countries: Institutional Arrangements," Report by a Group of Experts appointed under ECOSOC Resolution 919 (XXXIV), ECOSOC, Official Records (36th Session), Annexes, Document E/3756, p. 18.

<sup>21</sup>UN Document E/L.531. See the insightful analyses of changing Soviet policy toward the UN's work in the trade field by Harold Karan Jacobson: "The Soviet Union, the UN and World Trade," The Western Political Quarterly, vol. XI, no. 3 (September 1958), pp. 673-688; and The USSR and the UN's Economic and Social Activities, cited above at 2, chapter 7.

<sup>22</sup>See: UN Documents A/C.2/137 and E/1479.

<sup>23</sup>UN, ECOSOC Resolution 483(XVI).

<sup>24</sup>UN Document E/L.614/Rev.1 and 2.

<sup>25</sup>UN, ECOSOC Resolution 5310(XVIII).

<sup>26</sup>UN Document E/L.678.

<sup>27</sup>UN Document E/L.677. See also Pravda, 16 July 1955, p. 1, as contained in The Current Digest of the Soviet Press, vol. VII, no. 28 (24 August 1955), p. 25.

<sup>28</sup>UN, ECOSOC, Official Records (20th Session), pp. 76-77.

<sup>29</sup>UN, ECOSOC Resolutions 579(XX) and 592(XX).

<sup>30</sup>UN Document E/L.734.

<sup>31</sup>UN, ECOSOC, Official Records (22nd Session), p. 104.

<sup>32</sup>UN, ECOSOC Resolution 614(XXII).

<sup>33</sup>UN Document A/PV.589, para. 125.

<sup>34</sup>UN Document A/C.2/L.282/Corr.1.

<sup>35</sup>UN Document A/C.2/L.319.

<sup>36</sup>See the statement by the representative of the United Kingdom, UN Document E/3004/Add.2, para. 8.

<sup>37</sup>UN Documents E/AC.6/L.178, E/AC.6/L.322, and AC.2/L.429.

<sup>38</sup>UN Document E/AC.6/L.216.

<sup>39</sup>UN Documents E/AC.6/L.189, E/AC.6/L.217, A/C.2/L.319, and A/C.2/L.645.

<sup>40</sup>UN Documents E/AC.6/L.215 and A/C.2/L.466, "Draft Declaration on International Economic Cooperation."

<sup>41</sup>See: Diego Cordovez, "The Making of UNCTAD," Journal of World Trade Law, vol. I (May/June 1967), pp. 243-328, at 255-256; A.S. Friedeberg, The United Nations Conference on Trade and Development of 1964: The Theory of the Peripheral Economy at the Centre of International Political Discussions (Netherlands: Rotterdam University Press, 1969), pp. 4-5; Richard N. Gardner, "The United Nations Conference on Trade and Development," in Richard N. Gardner and Max F. Millikan (eds.), The Global Partnership: International Agencies and Economic Development (New York: Praeger, 1968), pp. 99-130, at 103; and Charles L. Robertson, "The Creation of UNCTAD," in Robert W. Cox (ed.), The Politics of International Organizations: Studies in Multilateral Social and Economic Agencies (New York: Praeger, 1970), pp. 258-274, at 263.

<sup>42</sup>See, for example, UN, General Assembly Resolution 1027(XI).

<sup>43</sup>UN, ECOSOC, Official Records (26th Session), Annexes, Document E/3168, para. 3(b) and (c).

<sup>44</sup>UN Document E/CN.13/SR.17, pp. 4-6; E/CN.13/SR.22, p. 4; E/CN.13/SR.31, pp. 4-5; and E/CN.13/SR.88, pp. 9-12. See also A. Rubinin, "Free Trade Area Versus Common Market," International Affairs (Moscow), no. 4 (1959), pp. 38-46.

<sup>45</sup>UN Document E.C.5/SR.15, p. 11. This belief in the overriding importance of the state sector in fostering economic growth and the concomitant communist aversion to the capitalist path for newly independent nations is a recurrent theme in Soviet literature on development. See, for example, O. Ulrikh, "Industrialization Problems in Developing Countries," International Affairs (Moscow), no. 11 (1968), pp. 75-79, at 77; and M. Grechev, "Some of the Problems of the Economic Dependence of Latin American Countries," Mirovaya Ekonomika i Mezhdunarodnyye Otnosheniya /World Economy and International Relations/ (Moscow), no. 10 (1960), pp. 74-81, at 76.

<sup>46</sup>This record, incidentally, has little to do with these governments' "capacity to pay." The regular UN budget is assessed on this principle and the American share is 32 per cent, the Soviet share 17 per cent. As one Western delegate pointed out at the 17th session of the General Assembly in 1962, the USSR's contribution to EPTA represents "only a fraction of what countries like

Sweden and the Netherlands pay." UN Document A/PV.1147, p. 58. For a concise analysis of Soviet and American financial contributions to UN development programs through 1968, see Robert S. Walters, American and Soviet Aid: A Comparative Analysis (Pittsburgh: University of Pittsburgh Press, 1971), Table 11, p. 171. Data for the 1969-1971 period are found in the Yearbook of the United Nations, vols. 22-24 (New York: United Nations, 1968-1970).

<sup>47</sup>Measures for the Economic Development of Underdeveloped Countries, UN Document E/1986.

<sup>48</sup>UN, ECOSOC, Official Records (20th Session), p. 167.

<sup>49</sup>Special United Nations Fund for Economic Development, UN Document E/2381.

<sup>50</sup>Rubinstein, cited above at 2, pp. 100-102; and Walters, cited above at 46, pp. 180-181.

<sup>51</sup>UN, General Assembly, Second Committee, Official Records (12th Session), p. 215.

<sup>52</sup>UN, General Assembly Resolution 1521(XV).

<sup>53</sup>Alec Nove, The Soviet Economy: An Introduction, Second Revised Edition (New York: Praeger, 1969), pp. 161-162.

<sup>54</sup>The evolution of CMEA is described in Andrzej Korbonski, "COMECON," International Conciliation, no. 549 (September 1964), pp. 3-62; and Roy L.H. Mellor, COMECON: Challenge to the West (New York: Van Nostrand and Reinhold Company, 1971).

<sup>55</sup>These policies and the problems to be mentioned below have been documented in the series of UN publications titled World Economic Survey, 19--, and Economic Survey of Europe in 19--. See, for example, World Economic Survey, 1958 (New York, 1959), pp. 160ff. See also: Nicholas Spulber, The Economies of Communist Eastern Europe (Cambridge: The M.I.T. Press, 1957), section III; A. Zauberman, "Economic Integration: Problems and Prospects," Problems of Communism, vol. VIII, no. 4 (July/August 1959), pp. 23-29; Frederic L. Pryor, The Communist Foreign Trade System (Cambridge: The M.I.T.

Press, 1963), chapters III and IV; and Stanley J. Zyzanski, "The Soviet Bloc and the Underdeveloped Countries: Some Economic Factors," World Politics, vol. XI, no. 3 (April 1959), pp. 378-398.

<sup>56</sup>Between 1950 and 1957 the trade turnover of the Soviet Union increased by more than 120 per cent, while that of the East European countries (excluding Albania) was not quite doubled. The Soviet bloc's share of world exports rose from 7 to 8 1/2 per cent by 1956, and of world imports from 6 1/4 to 7 3/4 per cent, attaining about the same level that it had reached immediately before the Second World War. UN, Economic Commission for Europe, Economic Survey of Europe in 1957, chapter VI, pp. 1-2 and Table 1.

<sup>57</sup>Soviet export to Western Europe rose from 10 per cent of the total exports in 1950 to 18 per cent in 1956, and imports from that region increased from 10 to 14 per cent over the same period. Simultaneously, the share of Soviet trade with overseas countries crept up from 7 to 8 per cent for exports, and from 11 to 12 per cent for imports. Economic Survey of Europe in 1957, cited above at 56, chapter VI, p. 5 and Chart 1.

<sup>58</sup>The East European share of exports to Western Europe in total trade rose from 23 per cent in 1952 to 24 per cent in 1956, and imports from that area rose from 22 to 25 per cent. East European imports of foodstuffs, fuels, and raw materials from overseas nations increased from 5 per cent in 1952 to 7 1/2 per cent in 1956, and the share of exports of machinery and equipment overseas likewise increased from 5 to nearly 9 per cent over the same period. Economic Survey of Europe in 1957, cited above at 56, chapter VI, p. 5 and Table 3.

<sup>59</sup>Carole A. Sawyer, Communist Trade with Developing Countries, 1955-1965 (New York: Praeger, 1966), pp. 7-9.

<sup>60</sup>See: Robert Loring Allen, Soviet Economic Warfare (Washington, D.C.: Public Affairs Press, 1960), pp. 62ff.

<sup>61</sup>Trygve Lie, In the Cause of Peace: Seven Years with the United Nations (New York: Macmillan Company, 1954), p. 302.

<sup>62</sup>See Michael L. Hoffman, "Problems of East-West Trade," International Conciliation, no. 511 (January 1957), pp. 259-308, at 296.

<sup>63</sup>See UN Document E/ECE/166.

<sup>64</sup>See the suggestive discussion by Marshall D. Shulman, Stalin's Foreign Policy Reappraised (Cambridge: Harvard University Press, 1965), chapter X.

<sup>65</sup>For an analysis of the likely impact of European economic integration on Soviet bloc trade, see: UN, Economic Commission for Europe, Economic Survey of Europe in 1956 (Geneva, 1957), chapter IV; and General Agreement on Tariffs and Trade, The Possible Impact of the European Economic Community, In Particular the Common Market, Upon World Trade, Trade Intelligence Paper No. 6 (Geneva, 1957). The political and strategic consequences of European unification for the USSR are explored in: Marshall D. Shulman, "The Communist States and Western Integration," International Organization, vol. XVII, no. 3 (Summer 1963), pp. 649-662; and Elliot R. Goodman, The Soviet Design for a World State (New York: Columbia University Press, 1960).

<sup>66</sup>UN Document E/ECE/SR.96, p. 20. See also: "Soviet Proposals for All-European Economic Cooperation," International Affairs (Moscow), no. 4 (1957), p. 156.

<sup>67</sup>Despite the USSR's apparent motive, the appeal of greater East-West trade provided sufficient inducement for most Western delegations, and some of the Soviet recommendations were adopted in a modified form. See UN Documents E/ECE/348 and E/ECE/385.

<sup>68</sup>David F.P. Forte, "The Response of Soviet Foreign Policy to the Common Market, 1957-1963," Soviet Studies, vol. XIX, no. 3 (January 1968), pp. 373-386, at 377-379.

<sup>69</sup>This is the view of Shulman, "The Communist States and Western Integration," cited above at 65, pp. 650-652 and 659ff. Other writers postulate that the revitalization of CMEA may also have been prompted by the developing Sino-Soviet conflict and by the need for closer integration and increased trade within the communist bloc. See: Korbon-ski, cited above at 54, pp. 10-12; and Zbigniew K. Brzezinski, The Soviet Bloc: Unity and Conflict, Revised and Enlarged Edition (Cambridge: Harvard University Press, 1967), pp. 284ff.

<sup>70</sup>For a history of East-West trade relations and a bibliography of materials on the subject, see: Samuel F. Claubaugh and Edwin J. Feulner, Trading with the Communists: A Research Manual (Washington, D.C.: Georgetown University Press, 1968). See also: Samuel Pizar, Coexistence and Commerce: Guidelines for Transactions Between East and West (New York: McGraw-Hill, 1970); and Hertha Heiss, "The Soviet Union in the World Market," New Directions in the Soviet Economy, Studies Prepared for the Subcommittee on Foreign Economic Policy, Joint Economic Committee, 89th Congress, 2nd Session, June, 1966, pp. 919-933.

<sup>71</sup>The impact of the growing membership of the UN up to 1965 is covered in Harold Karan Jacobson, "The Changing United Nations," in Roger Hilsman and Robert C. Good (eds.), Foreign Policies in the Sixties: The Issues and Instruments (Baltimore: Johns Hopkins Press, 1965), pp. 67-89. For a comprehensive analysis of the political influence the Afro-Asian countries have attempted to exercise in the UN, see: David A. Kay, The New Nations in the United Nations, 1960-1967 (New York: Columbia University Press, 1970).

<sup>72</sup>Soviet optimism toward the UN during this period is briefly described in N.P. Nikhamin, "Some Features of the Foreign Policy of Eastern Non-Socialist Countries," International Affairs (Moscow), no. 3 (1959), p. 85; and A. Nekrasov, "The Soviet Union Upholds the Economic Independence of the Emergent Nations," International Affairs (Moscow), no. 5 (1956), pp. 50-55.

<sup>73</sup>The official announcement of the new Soviet approach to the Afro-Asian countries came at the Twentieth Party Congress in February 1956. In delivering the Central Committee report Khrushchev summarily declared that those states that opted for neutrality and favored disarmament and peaceful coexistence constituted a "peace zone" inhabited by the majority of the world's population. See: Kurt Muller, The Foreign Aid Programs of the Soviet Bloc and Communist China, Translated by Richard H. Weber, and Michael Roloff (New York: Walker and Company, 1967), pp. 24ff.

<sup>74</sup>See the pessimistic appraisal by I. Chernyshov, then recently retired from his post as Assistant Secretary-General of the United Nations: "The United Nations Today," New Times (Moscow), no. 43 (1959), p. 7.

<sup>75</sup>UN Document DC/158.

<sup>76</sup>UN, General Assembly, Official Records (15th Session), Part I, pp. 68-84; and UN Document A/4502, "Declaration on Granting Independence to Colonial Countries and Peoples."

<sup>77</sup>UN Document A/4505.

<sup>78</sup>Geoffrey Goodwin, "The Expanding United Nations, I--Voting Patterns," International Affairs (London), vol. 36, no. 2 (April 1960), pp. 174-186, at 181.

<sup>79</sup>Carlos P. Romulo, The Meaning of Bandung (Chapel Hill: The University of North Carolina Press, 1956), pp. 1-4.

<sup>80</sup>Thomas Hovet, Jr., Bloc Politics in the United Nations (Cambridge: Harvard University Press, 1960), pp. 81-82.

<sup>81</sup>E. Zhukov, "The Bandung Conference of African and Asian Countries and Its Historical Significance," International Affairs (Moscow), no. 5 (1955), pp. 18-32.

<sup>82</sup>Ibid., p. 21.

<sup>83</sup>Hovet, cited above at 80, pp. 41-43 and 93-94; and Kay, cited above at 71, p. 116.

<sup>84</sup>Josip Djerdja, "A Good Start," Review of International Affairs (Belgrade), vol. XV, nos. 342-343 (5-20 July 1964), pp. 1-3, at 2.

<sup>85</sup>Belgrade Declaration of Nonaligned Nations, September 6, 1961, item 21, as contained in The New York Times, September 7, 1961.

<sup>86</sup>The full text of the Cairo Declaration is contained in UN Document A/5162.



<sup>87</sup>Shortly after the Cairo Conference the representative from Yugoslavia expressed this new esprit de corps among the participants:

"The Declaration of Developing Countries marks an end of an area in which each of the developing countries regarded world economic problems from its own angle, seeing and seeking, first of all, individual and partial solution. This new, general aspect, from which all existing problems are common and essentially identical for all developing countries, and from which individual and particular solutions are thus only possible and attainable within the framework of general constructive changes in international economic relations, was first assessed completely at Cairo."

Dj. Jerkovic, "After Cairo," Review of International Affairs (Belgrade), vol. XIII, nos. 296-297 (5-20 August 1962), pp. 1-3, at 2.

<sup>88</sup>Cf. Irving Louis Horowitz, Three Worlds of Development: The Theory and Practice of International Stratification (New York: Oxford University Press, 1966).

<sup>89</sup>Cecil V. Crabb, Jr., The Elephants and the Grass, A Study of Nonalignment (New York: Praeger, 1965), p. 2.

<sup>90</sup>See: Raul Saez S., "The Nine Wise Men and the Alliance for Progress," in Gardner and Millikan, The Global Partnership, cited above at 41, pp. 244-269.

<sup>91</sup>UN, General Assembly, Official Records (15th Session), Second Committee, pp. 7-10.

<sup>92</sup>International Compensation for Fluctuations in Commodity Trade (New York: United Nations, 1961).

<sup>93</sup>UN Document A.C.2/L.550. The sponsors of this draft resolution were Argentina, Bolivia, Costa Rica, El Salvador, Guatemala, and Uruguay.

<sup>94</sup>UN Document A/C.2/L.556/Add.1 and Rev.1. The sponsors of this draft resolution were the Central African Republic, Chad, Congo (Brazzaville), Congo (Leopoldville), Ethiopia, Guinea, Indonesia, Libya, Mali, Morocco, Nigeria, Senegal, Sierra Leone, Sudan, Togo, Tunisia, and the United Arab Republic.

<sup>95</sup>UN Document A/C.2/L.550/Rev.2 and Add.1.

<sup>96</sup>UN, General Assembly, Official Records (16th Session), Second Committee, pp. 167-176.

<sup>97</sup>UN Document A/C.2/L.559/Add.1.

<sup>98</sup>UN, General Assembly, Official Records (16th Session), Second Committee, pp. 177-200.

<sup>99</sup>UN Document A/C.2/L.559/Add.1/Rev.1 and Corr.1.

<sup>100</sup>UN Document A/5056.

<sup>101</sup>UN Document A/L.379; amendment to draft resolution II submitted by the Second Committee in Document A/5056.

<sup>102</sup>UN, General Assembly Resolution 1707(XVI).

<sup>103</sup>UN, General Assembly Resolution 1710(XVI).

<sup>104</sup>UN Document E/3631 and Addenda 1-4 contain the texts of the replies. The United States, for example, declared its long-standing interest in stabilizing primary commodity markets and in helping to improve the trading outlook of developing countries and that "if there were reason to believe that the convening at this time of a world trade conference would advance the progress being made towards these objectives, the United States Government would welcome the proposal for such a meeting and give it full support" (p. 36). The United Kingdom stated that, in view of the work already in progress in other bodies, especially GATT, an international trade conference would not "at present" contribute to the solution of the problems of world trade (Add.1, p. 18). The French government indicated that it was not convinced that the proposed conference was "necessarily the best way to achieve practical results and that a decision should be postponed until after certain preliminary meetings had been held" (p. 18).

<sup>105</sup>UN Document E/L.958/Rev.2. The sponsors of this draft resolution were Brazil, Ethiopia, India, Senegal, and Yugoslavia.

<sup>106</sup>UN Document E/AC.6/SR.327, pp. 8-10.

<sup>107</sup>UN, ECOSOC, Official Records (34th Session), 1236th Meeting, p. 209. ECOSOC Resolution 917 (XXXIV).

<sup>108</sup>UN Document E/AC.6/L.278.

<sup>109</sup>For a record of the discussion, see UN Documents E/AC.6/SR.315-330.

<sup>110</sup>UN, ECOSOC Resolution 919(XXXIV).

<sup>111</sup>"Commodity and Trade Problems of Developing Countries: Institutional Arrangements," cited above at 20.

<sup>112</sup>UN, General Assembly, Official Records (17th Session), pp. 19-21.

<sup>113</sup>UN Document A/C.2/L.645.

<sup>114</sup>UN Document A/C.2/L.648. The sponsors of this draft resolution were Algeria, Afghanistan, Ghana, Guinea, India, Indonesia, Jordan, Mali, Morocco, Nepal, Nigeria, Pakistan, Sudan, Tanganyika, United Arab Republic, Venezuela, and Yugoslavia.

<sup>115</sup>For a record of the debate, see: UN, General Assembly, Official Records (17th Session), Plenary Meetings 1190, 1193, 1197; and ibid., Second Committee and Annexes 1-2.

<sup>116</sup>UN Document A/C.2/L.651.

<sup>117</sup>UN Document A.C.2/L.656.

<sup>118</sup>UN Document A/C.2/L.651/Rev.1.

<sup>119</sup>UN, General Assembly, Official Records (17th Session), Second Committee, p. 236.

<sup>120</sup>See the remarks by the Indian representative, ibid., pp. 200-201.

<sup>121</sup>M. Lavrichenko and I. Ornatsky, "Barometer of Interstate Relations," International Affairs (Moscow), no. 1 (1964), pp. 62-68, at 62.

<sup>122</sup>See the intriguing article by M.V. Nesterov, the individual who gave the principal address at the 1952 Conference, entitled "And If It Meets Again?" in Izvestia, 11 April 1962, as contained in The Current Digest of the Soviet Press, vol. XIV, no. 15 (9 May 1962), p. 21.

<sup>123</sup>UN, General Assembly, Official Records (19th Session), Second Committee, p. 257. The countries voting against this resolution were France, the United States, the United Kingdom, Belgium, Italy, Spain, Ireland, Luxembourg, South Africa, and Rwanda. Five Scandinavian countries, Austria, Greece, Japan, the Netherlands, Portugal, Turkey, ten French-speaking African countries, Iran, and Taiwan abstained.

<sup>124</sup>UN Document A/L.408.

<sup>125</sup>UN Document A/L.409.

<sup>126</sup>UN, General Assembly Resolution 1785(XVII).

<sup>127</sup>UN, General Assembly Resolution 1820(XVII).

<sup>128</sup>For information about the background and activities of GATT, see: Proceedings of the United Nations Conference on Trade and Development, vol. V (New York: United Nations, 1964) which contains the following studies, among others: "The Developing Countries in GATT," prepared by the UNCTAD secretariat, pp. 430-469; "Trade and Development: The Role of GATT," prepared by the GATT Secretariat, pp. 470-492; "A Framework for Trade Between Developed and Less Developed Countries," by I. Gal-Edd, Deputy Director of the Ministry of Commerce and Industry of Israel, pp. 493-501; and "The Significance of GATT," by Professor S.B. Linder of the Stockholm School of Economics, pp. 502-533. A brief but sympathetic discussion of GATT's role in development is Richard N. Gardner, "GATT and the United Nations Conference on Trade and Development," International Organization, vol. XVIII, no. 4 (Autumn 1964), pp. 685-704.

<sup>129</sup>Trends in International Trade, Report by a Panel of Experts (Geneva: General Agreement on Tariffs and Trade, 1958).

<sup>130</sup>The full text of the 1963 GATT Program of Action is contained in "Trade and Development: The Role of GATT," cited above at 128, Annex II, pp. 482-489.

<sup>131</sup>Memorandum of the Brazilian Delegation to the 1962 General Assembly on The Institutional Framework for the Expansion of International Trade, UN Document A/C.2/214.

<sup>132</sup>Friedeberg, cited above at 41, pp. 117-122.

## CHAPTER III

### THE INSTITUTIONAL ISSUE

UNCTAD was convened at Geneva during March-June 1964 primarily at the initiative of the developing countries, which sought solutions for their urgent trade and development problems through international cooperation. At the outset of the Conference most delegations did not assign priority to institutional questions. The Western states were opposed to any elaborate scheme for a new UN trade agency but some had accepted the idea that improvements in existing machinery were necessary. The developing countries were far from defending a common approach to the kinds of decisions that the Conference should take regarding institutional arrangements. Only the socialist states as a group insisted that the traditional channels could not be made to serve the purposes of UNCTAD adequately and that a full-fledged International Trade Organization should be established. The issue was largely sidestepped during the general debate by agreement that institutional problems would be examined in the light of the recommendations of the Conference for a new world trade policy.

As it became clear that on economic matters the actual results would be extremely meager, the political aspects of the Conference gained in weight. What was really at stake behind the seemingly innocent facade of

"institutional machinery" on the agenda was the vital question of whether UNCTAD should be limited to a unique event or whether it should become a permanent forum for implementing the far-reaching goals set forth at Geneva. This explains why the sharp East-West-South conflict over the kind of institution, if any, that should be created became crucial for the failure or success of the whole Conference, and it suggests that the tripartite confrontation at UNCTAD, although conducted in economic terms, was in fact not economic but political. The machinery that emerged from the 1964 Conference bore the marks of that political confrontation.

#### Work of the Preparatory Committee of the Conference

The Preparatory Committee of UNCTAD held the first of three sessions in New York from 22 January to 5 February 1963. The thirty-member Committee, during twenty-two meetings,<sup>1</sup> elected its officers,<sup>2</sup> drew up a provisional Conference agenda, considered the preparation and gathering of necessary documentation, and discussed arrangements for its own future work.

The draft agenda approved by the Committee for submission to the Economic and Social Council comprised eight main topics, each divided into many sub-items. In the end all eight topics were to appear unchanged on the final UNCTAD agenda, as follows:

- (i) Expansion of international trade and its significance for economic development (five items)
- (ii) International commodity problems (five items)
- (iii) Trade in manufactures and semi-manufactures (three items)
- (iv) Improvement of the invisible trade of developing countries (two items)
- (v) Implications of regional economic groupings (two items)
- (vi) Financing for an expansion of international trade (three items)
- (vii) Institutional arrangements, methods, and machinery to implement measures relating to the expansion of international trade (two items)
- (viii) Final Act

No explicit mention was made in the draft agenda of any of the Soviet Union's old hobbyhorses: the creation of an ITO, an expansion of East-West trade, or the possible benefits of a disarmament program for world trade.<sup>3</sup> The Western powers considered the problems of East-West trade to be due to political tensions rather than to technical difficulties and therefore a more appropriate subject for a special conference. Most developing countries appreciated the importance of East-West economic relations and general disarmament for international trade but expressed fear that discussion of these topics would bog the Conference down in cold war polemics.<sup>4</sup> In these circumstances, the USSR did not press its agenda proposals to a Committee



vote.

During the session U Thant, then UN Secretary-General, named Raul Prebisch as Secretary-General of the Conference. The announcement came at the time that Prebisch was about to relinquish his post as Executive-Secretary of the Economic Commission for Latin America, which he had held virtually since its inception in 1948, in order to head the newly established Latin American Institute for Economic and Social Planning, a project of ECLA and, to a large extent, of Prebisch himself.

The appointment was not uncontroversial: the selection of Prebisch from among other possible candidates ensured that the UNCTAD secretariat would have a particular point of view--and that Philippe de Seyne's ideas of strengthening the Department of Economic and Social Affairs at UN headquarters in New York would be passed over. Prebisch was the author of what was often referred to as the "ECLA Doctrine," involving a set of new ideological and operational concepts for Latin American development which were at considerable variance with what was widely accepted in the North.<sup>5</sup> He had called for a "significant change in attitudes" in relations between the industrialized and the "peripheral" countries and for broadening the scope of international development assistance. In his writings and at ECLA sessions Prebisch had been an advocate of internal social and economic planning, and had laid

particular emphasis on the important role of trade as an "engine for growth." Many of his ideas forcefully opposed certain trade and assistance policies toward Latin America and were incorporated as fundamental tenets of the Alliance for Progress program. Even before UNCTAD-I convened the increasing urgency of development problems had stimulated a wider international interest in the ECLA Doctrine. Prebisch's theories, although originally formulated with special regard to Latin America, were soon generalized to apply to all developing countries.

Prebisch was entrusted with the secretariat's preparations for the Conference, for which purpose he drew upon the resources of the Department of Social and Economic Affairs and the secretariats of the regional economic commissions to assist in the drafting of studies and reports. A group of senior Secretariat officials was appointed to advise Prebisch on all matters pertaining to the organization and substantive aspects of the Conference.

#### Second Session of the Preparatory Committee

The second session of the Preparatory Committee was held at Geneva from 21 May to 29 June 1963.<sup>6</sup> This session was not only the longest with thirty meetings, but also the most important of the three. It developed into a kind of pre-conference which showed some of the salient features which later would appear to be characteristic for UNCTAD, such as broad unity among the developing countries

on economic matters, lack of unity among the Western industrialized states, widely diverging views between these two groupings, and the secondary role played by the Soviet bloc in the proceedings.

The tasks of this session included the preliminary consideration of the items of the provisional Conference agenda, the preparation of a revised provisional agenda, and recommendations regarding further administrative arrangements for the Conference. To facilitate the review of the draft agenda, the Committee established four Sub-Committees: Sub-Committee I to deal with international commodity problems; Sub-Committee II with trade in manufactures and semi-manufactures; Sub-Committee III with the improvement of the invisible trade of the developing countries and with financing for international trade expansion, including international compensatory financing; and Sub-Committee IV with institutional arrangements. Sub-Committee IV was set up rather late in the session because many Western powers questioned the need for and purposes of it. Each Sub-Committee was urged to identify the issues and problems and to list proposals for action or indicate lines along which solutions might be sought. In the process many discussions took place on each agenda item, both in these Sub-Committees and in the Preparatory Committee's plenary meetings. It is apparent, however,

from the Committee's report that no agreement was reached and that virtually all matters were left open for thorough discussion at UNCTAD.

Sub-Committee IV--which held only eleven meetings<sup>7</sup>--had before it the report on "Commodity and Trade Problems of Developing Countries: Institutional Arrangements" prepared by the group of experts appointed by the Secretary-General under resolution 919 (XXXIV) of the Economic and Social Council.<sup>8</sup> The report contained a comprehensive review of all international institutions dealing with trade problems of importance to developing countries. The composition of the group of experts was such that it represented a four-way divergence of views among moderate and extremist developing countries and free-market and centrally-planned industrialized states. It is not suprising, therefore, that the experts had been unable to agree on the assessment of the terms of reference and activities of these institutions. They had likewise been divided on their recommendations regarding measures for dealing with the various problems mentioned in the report. The group did agree on certain general considerations and concluded that "historical and other factors had led to the creation of a large number of organizations and more or less independent subsidiary bodies, and this has resulted in instances of duplication, dispersal of efforts, inadequate coordination, and lack of leadership." The

report added, however, that "at the same time it should be recognized that in recent years a considerable effort has been made, both formally--within the United Nations--and informally, to ensure better coordination of the activities of these various organizations and meet some of the criticisms advanced."<sup>9</sup>

There seemed to be two quite distinct schools of thought among the experts. One section of the group expressed the view of the Western industrialized states. The members of this section felt that the existing international organizations were fully capable of dealing with trade problems in general and the trade problems of less developed countries in particular. What was needed was remodeling and improvement of these institutions along with constant pressure on the governments concerned to ensure progress in this field. The other section expressed the view of the Soviet bloc and many Afro-Asian countries. The members of this section held that the existing organizational arrangements for dealing with the trade problems of developing countries were so incomplete and unsatisfactory that mere reform would not be adequate to secure the improvements deemed necessary; a major organizational change was thus called for. There were some Latin American and moderate Asian experts who took what they considered to be a middle position between these two positions.

In light of the conflicting views that prevailed, the group of experts decided to put forward the following four proposals for consideration by the Preparatory Committee:<sup>10</sup>

Proposal I. This proposal, expressing the views of the experts from the Soviet bloc and extremist developing countries, envisaged the establishment of a completely new United Nations International Trade Organization on the basis of universal membership. The ITO would be both a forum where all important problems of trade and development could be thoroughly discussed, and an executive body with sufficient authority and strength to implement the various recommendations of the United Nations Conference on Trade and Development. The principal organs would be a Conference, an Executive Council, and a Secretariat headed by a Director-General. It would have separate committees on commercial policy between countries with different economic systems, on primary commodities, manufactures, invisibles, financial problems, and tariffs. GATT under this scheme would be treated as the ITO's committee on tariffs.

As stated in the report, the main argument against the proposal was that it was unrealistic to assume that there would be sufficiently widespread agreement for an International Trade Organization to be established.

Rather, the lesson to be drawn from the experience of the Havana Charter was that great difficulties stand in the way of major proposals of this kind even when, as at Havana, the ground had been carefully prepared and there was general consensus among the important trading states on the lines of postwar international commercial policy. Moreover, whatever might have been the merits of an ITO in 1948, since then a number of organizations had developed to fill the institutional gaps. Any proposal which resulted in the scrapping of these existing organizations or put them artificially into a single organization at such a late stage would meet considerable opposition besides encountering practical difficulties arising out of the reorganization.

Proposal II. This proposal, representing the views of the Western industrialized countries, was that governments should use more fully and constructively the machinery already at their disposal by further evolution of GATT in directions which it was already moving, and the reorganization of the work of the Economic and Social Council and the General Assembly's Second Committee. Consequently, the Western alternative amounted to an attempt to meet the need for a trade and development forum without further proliferation of the complex structure of international economic organizations, i.e., through minor

adaptions of existing institutions. This included maintaining the position of ECOSOC as the main coordinating body in the economic and social field, and the position of GATT as the de facto international trade organization.

Proposal III. This proposal, submitted by the Dutch expert Professor S. Korteweg, advocated "a positive revision of the GATT structure" independent of other changes in the United Nations trade and development apparatus. The revision would include a series of separate supplementary agreements on trade between developed and developing countries, on trade among developing countries, and on trade between state-planned and free-market economies. These separate agreements would be served by the GATT Secretariat. Further, under the auspices of GATT, periodic conferences would be convened of the members of both the General Agreement and the special agreements to consider common problems.

It was explained in the report that the main weaknesses of proposals II and III were two-fold. First, it was unrealistic to think that ECOSOC and the Second Committee, with their extremely crowded agenda would be able to find enough time to consider the problems of trade and development in any detail. Second, these proposals did not envisage any executive instrument other than GATT. But GATT by its very nature was a narrowly constituted group system; in its origin, structure, objectives,



practice and composition, GATT was different from the United Nations and its organs. It would be difficult to amend the General Agreement without changing its fundamental character, and the question of the relationship between a reconstituted GATT and the various UN bodies which also deal with trade problems was likely to be troublesome.

It should also be pointed out that, whatever the merits of Professor Korteweg's proposal from a pragmatic point of view, it received minor attention at UNCTAD because it seemingly did not meet the desire of the developing countries for an organization devoted to their development needs.

Proposal IV. This fourth alternative, expressing the views of the moderate developing countries, combined some features of the proposal for an ITO and proposals for less radical changes in existing organizational arrangements. It called for the establishment of a permanent forum supported by a representative standing committee and a competent executive organ within the UN Secretariat. If the United Nations Conference on Trade and Development were to decide to meet periodically and to appoint a standing committee to look after the day-to-day work, UNCTAD itself could provide such a forum, which would act as an umbrella for all international organizations--including GATT--dealing with trade and

development.

The major differences between proposal IV and proposal I were that under the former proposal membership of the new agency would be limited to member countries of the United Nations and the specialized agencies, and its executive powers would be smaller. Further, although the proposed machinery would have virtually the same sort of structure as the ITO, officially no separate agency would have to be set up. The new machinery could be created by passing a UN General Assembly resolution, without the necessity for negotiating separate treaties and getting parliamentary approval. In this way the permanent trade forum could avoid the fate of the original International Trade Organization proposed at the Havana Conference in 1947-1948.

As stated in the report, the main arguments against proposal IV were that, in comparison with an ITO, this would be a more complicated, less efficient, and also less representative arrangement and that it could face practical difficulties in implementing some of its policies through existing institutions. It was also stated that the new bodies would be similar to the General Assembly's Second Committee and an enlarged Economic and Social Council under new names.

When the report of the group of experts was considered by Sub-Committee IV of the Preparatory Committee much the

same ideas emerged regarding the effectiveness of existing institutional arrangements and the changes that might be needed. The Western states held that the existing institutions, given the opportunity to improve their work and to continue to evolve, were capable of solving new problems in the field of trade and development. The socialist and developing countries stressed that the existing institutions were inadequate and incapable of solving these problems and that new machinery under the United Nations was required. The proposal that the United Nations Conference on Trade and Development should become a permanent UN forum seemed to gain support among the developing countries. In a statement to the Preparatory Committee submitted by Yugoslavia it was considered that the study of organizational measures should proceed from the practical need to implement in the first place the decisions to be taken by the Conference, for which purpose it should become "a permanent organ of the United Nations." The Conference, according to the statement, "should be the highest forum of the United Nations, competent for the promotion of international cooperation in the field of trade and development" and entitled "to issue directives for a more intensive action of existing organs dealing individual aspects of the vast field" of international economic cooperation.<sup>11</sup>

The Preparatory Committee did not make any substantive recommendations concerning institutional arrangements because it was felt, having regard to the divergent views expressed, that the kind of organizational measures and changes required would depend to a large extent on the main decisions of the Conference. The Committee merely drew the attention of the Conference to the four proposals put forward by the group of experts but added, as a variant of these proposals, two suggestions: (a) that an extended session of the Second Committee of the General Assembly should consider in its early part exclusively the problems of trade and development with the attendance of necessary experts; and (b) that there should be set up, under the Economic and Social Council, a standing committee of the type represented by the Committee on Industrial Development to perform the functions of the standing committee referred to in proposal IV of the group of experts.

It was also proposed that the Conference should consider and adopt "a charter of principles of international trade cooperation which would have the significance of an international convention." In transmitting these proposals to the Conference, most members of the Preparatory Committee agreed that any changed institutional arrangements or any new machinery should meet the following criteria: (a) have wide competence in the field of international trade, especially trade as an instrument of economic

development; (b) be capable of supervising the implementation of decisions to be taken at the Conference; (c) be capable of coordinating the activities of existing institutions with respect to international trade; (d) operate under the general aegis of the United Nations; (e) provide for universality of membership or as near to universality as possible; and (f) be acceptable to the major trading states and to the majority of the developing countries.

#### An Important Declaration by the Developing Countries

The second session of the Preparatory Committee proved to be a disappointing and disillusioning experience for those who had nurtured optimistic expectations about UNCTAD. Many developing countries had assumed that the unanimous adoption of General Assembly Resolution 1785 (XVII) to convene the Conference and the agreement on the provisional agenda reached at the first session of the Preparatory Committee meant that a widely-held consensus had been achieved regarding the aims and substance of UNCTAD.<sup>12</sup> The Preparatory Committee's discussions showed, however, that apart from basic agreement on the need to formulate a new international trade and development policy, there were still profound differences of view concerning the ways to accomplish this objective--that is, concerning the substance of the Conference itself. The policy of

economic cooperation proposed by the Western states seemed to be directed in the main at making minor adjustments in existing world trade patterns and practices. The socialist countries, despite their rhetoric, took a position fairly typical of the industrial world on economic matters, endorsing all changes which would adversely affect only other developed countries and opposing those which would place significant burdens on themselves. A growing awareness of the actual Northern attitude toward international trade cooperation led the developing countries to the conviction that only through concerted Southern action could they persuade the privileged sectors of the world economy that such "crumb pragmatism" was untenable.

Other considerations prompted the developing countries' perception of the need for joint action at this time. Both Western and Soviet spokesmen had intimated during the Preparatory Committee meetings that the economic work of the Conference should be confined primarily to a general examination of the state of the world economy and technical studies of the problems involved.<sup>13</sup> The developed states were clearly reluctant to attend any international gathering which was bent upon effecting systemic reforms in North-South economic relations. Hence, the developing countries feared that the Conference might be reduced to the level of expert panels which might yield valuable and minutely prepared reports but which would inevitably avoid the search

for and implementation of concrete measures essential for a new international division of labor.<sup>14</sup> Another manifesto, perhaps in the spirit of the 1962 Cairo Declaration, calling attention to the character of the upcoming UNCTAD and enumerating the problems it would have to deal with and the solutions expected of it by the developing countries and the world in general, seemed warranted.

At the same time the developing countries were conscious of their own clashing interests on many of the issues the Conference would consider and the dangers such disunity forbode for their success at UNCTAD. The Western states, not having taken kindly to the idea of an international trade conference, might be tempted to play the game of divide and conquer lest they feel compelled by strong moral pressure in the form of majority decisions to grant any substantial concessions to the developing countries. An Indian scholar, writing on the eve of UNCTAD-I, aptly expressed this rationale for a Southern alliance:

It is, therefore, being increasingly realized that, unless the developing countries hold together, no benefit will come out of the world trade conference. The main strategy of the less developed countries will lie in forging a unity so that some of the unwilling leading developed countries might not make capital out of the little differences that might crop up during the important discussions at the Conference table, particularly during the committee stage of the Conference.<sup>15</sup>

In short, with the Conference date rapidly approaching, the developing countries wanted once more to rally their own forces for the occasion and to focus the world's attention on their urgent economic problems.

To these ends the seventeen less developed countries represented at the Preparatory Committee's second session began regular meetings under Yugoslav, Brazilian, and Indian leadership which produced a joint statement eventually adhered to by seventy-five countries, all less developed with the exception of New Zealand.

In this "Geneva Declaration" the developing countries once again listed their demands in full. The statement stressed the importance of UNCTAD for the economies of the developing countries and for the world economy as a whole. It pointed to the efforts already being made by these countries for their economic and social advancement but stated that, if they were to succeed, such domestic efforts would have to be supplemented and assisted by an adequate international division of labor, with new patterns of production and trade. The fundamental economic problems of the developing countries were well identified; what the world lacked, therefore, was "not the awareness of the problems but the readiness to act." In conclusion, the statement laid emphasis on the need for the Conference to reach basic agreement on a new international trade and development policy leading to the adoption by the Conference



of concrete measures to achieve, inter alia, the "improvement of institutional arrangements including, if necessary, the establishment of new machinery and methods for implementing the decisions of the Conference."<sup>16</sup>

Actually the Geneva Declaration contained no new demands. Its significance lies primarily in its operational function of aggregating Southern needs and aspirations into a single package, thereby providing two-thirds of the UN's members with a common basis from which to advance claims against the industrialized minority. The Declaration's further importance as a vehicle for communicating these demands to the advanced North lies in the follow-up which the developing countries gave to it in the United Nations.

During its summer session of 1963, the Economic and Social Council took note of the Preparatory Committee's report on its second session, approved the provisional agenda of the Conference, and decided that UNCTAD should be held at Geneva beginning on 23 March 1964 and continuing until 15 June 1964.<sup>17</sup> Later in the year a draft resolution was proposed at the eighteenth General Assembly by seventy-five developing countries whereby the Assembly would "welcome" the Geneva Declaration as a "well considered basis for the examination of the problems of the developing countries" and "invite" the state participating in UNCTAD to give serious consideration to this Declaration in dealing with the various items on the agenda.<sup>18</sup> The draft

resolution was adopted unanimously by the Second Committee on 24 October 1963 and at a plenary meeting of the Assembly on 11 November 1963.<sup>19</sup> The submission of this resolution was the first solid demonstration of the united front that the "Group of Seventy-Five" developing countries would take at the Conference, and it clearly established the North-South conflict as the relevant focus of UNCTAD. At the same time, by denying the priority of the East-West economic embroilment, the resolution showed that the Soviet Union, though originally having championed UNCTAD for its own purposes, was already playing a secondary role before the actual Conference had started.

#### Third Session of the Preparatory Committee

The third and last session of the Preparatory Committee took place in New York from 3 to 15 February 1964.<sup>20</sup> The Committee reviewed the provisional agenda of the Conference and settled a number of organizational and procedural matters. Although the USSR reiterated its long-standing recommendations regarding particular aspects of the draft agenda, the consensus was that the agenda was broad enough to cover all problems facing the Conference and that, therefore, no change was necessary. Outside of the Committee the Soviets expressed much displeasure with the preparations for the upcoming Conference. The agenda was regarded as reflecting top

closely the demands of the Geneva Declaration of developing countries. In Moscow's view, these demands could not be isolated from such larger issues as the need to create an ITO, the normalization of East-West trade relations, the economic aspects of general disarmament, and the effects of economic groupings (i.e., the Common Market) on international trade. Some Soviet commentators took to task the Group of Seventy-Five for failing to have a sufficiently broad perspective of the problems of world trade.<sup>21</sup>

An important decision taken by the Preparatory Committee, and one which was to have a bearing on the discussion of institutional arrangements at UNCTAD, concerned the composition of the General Committee of the Conference, which would assist the President in the general conduct of the Conference and ensure the coordination of its work. The question engaged the attention of the Preparatory Committee for several days because it was difficult to find a formula of equitable representation acceptable to all of the groups participating in UNCTAD. The decision, moreover, implied allocating certain leading functions such as the presidency of the Conference, the chairmanship of the main committees, and the rapporteurship to representatives of divergent socio-political systems at different stages of development.

After strenuous negotiations, during which the Soviet Union argued for a "troika" arrangement on the basis of

equitable representation of the socialist, the Western, and the developing countries, it was agreed that the important positions would be divided among four geographical groups with the lion's share assigned to the developing countries. Consequently, the General Committee, which would comprise the President of the Conference, twenty-seven Vice-Presidents, five Chairmen of Committees, and a Rapporteur, was constituted as follows:

	Presi- dent	Vice- Presidents	Committee Chairmen	Conference Rapporteur
Eastern European countries	--	4	--	--
Western European countries, United States, Japan and Commonwealth countries not falling into other categories listed	--	8	1	--
African and Asian countries and Yugoslavia	1	10	3	1
Latin American countries	--	5	1	--

Source: "Report of the Preparatory Committee (Third Session)," Proceedings of the United Nations Conference on Trade and Development, vol. VIII, (New-York: United Nations, 1964), p. 57.

#### A Soviet Blueprint for a Trade Organization

At the Preparatory Committee's third session the Soviet Union submitted two documents, a memorandum setting out "Preliminary Considerations Regarding the

Main Provisions for an International Trade Organization"<sup>22</sup> and, together with Czechoslovakia and Poland, a draft resolution concerning the creation of an ITO.<sup>23</sup> The memorandum was based on the premise that there was "no single and universal body, either inside or outside the United Nations, dealing with world trade problems" and that an ITO with "a wide field of competence" would become a "center for coordinating the activities of all subsidiary bodies of the United Nations and of all other international trade organizations." The memorandum further suggested a long list of questions, covering the entire range of international trade problems, which would constitute subjects for recommendations and measures adopted by the ITO. It was recommended that the highest organ of the ITO would be the conference of all its members and that in periods between conferences the organization's work would be directed by an executive body modeled after a "troika"--a "secretariat headed by a Secretary-General and by Deputy Secretaries-General representing the three groups of states existing in the world."

The draft resolution followed very closely the lines of the memorandum and proposed that UNCTAD should create an autonomous ITO under the auspices of the United Nations which would be "open to membership by any state" and "empowered to deal with all questions of international trade." The draft further recommended that the activities

of the new organization should be founded on the principles of international trade relations and trade policy adopted by the Conference. It was suggested that until the ITO was established UNCTAD should be convened periodically and serve as the highest trade forum of the United Nations.

The Preparatory Committee's session was too short for a detailed discussion of proposals and most delegations were at that stage rather reluctant to commit themselves regarding the creation by the Conference of an ITO. In the main, the Western powers completely opposed the idea of a new trade agency while the majority of developing countries seemed convinced that UNCTAD should approve transitional institutional arrangements, possibly in the form of periodic conferences. The controversy was shunted aside by agreeing that the Soviet plan and other institutional questions should be examined in the light of the results emerging at the Conference.

The USSR's proposal for an ITO has been labeled by some observers as "a piece of pure demagoguery"--an attempt merely to win the sympathies of the developing countries.<sup>24</sup> Though such a view reflects misconceptions of both the Soviet and the developing countries' respective positions on institutional matters at UNCTAD, a careful examination of the Soviet scheme is necessary to separate the kernels of truth from the grains of salt.

That an International Trade Organization had long been championed by the USSR primarily for its own purposes is without question. The major impetus for proposing new UN trade machinery was Moscow's desire to contain and upset the movement toward Western integration (see chapter II). The Russians were well aware of the confidence felt in most Western capitals during the first half of the 1960's decade about the economic unification of Western Europe and the full significance of the trend it forbode.<sup>25</sup> They saw France and Germany extending numerous ties of alliance together. They saw the eventual entry of Great Britain into the Common Market. And they saw the proposed Atlantic Community as a possibility if the U.S. Trade Expansion Act of 1962 and the Kennedy Round of GATT negotiations succeeded quickly in slashing tariff barriers between Europe and North America.<sup>26</sup> In the minds of some Soviet policy-makers, a strong and prosperous West might actually attract the East European states away from the USSR. The economic fate of the developing nations of Asia and Africa was surely at stake.

In these circumstances, it was reasonable to expect Soviet countermoves to prevent the economic isolation of the USSR. Under the banner of the "socialist division of labor," Moscow endeavored to tighten its Eastern bloc to the point where there would be a central planning and enforcing agency for all countries involved.<sup>27</sup> Outside

the communist orbit, however, Soviet proposals for all-European economic cooperation had fallen flat and its propaganda had done nothing appreciable to inhibit the growth of Western integration. Hence, it was evident that the organization to be overcome was GATT. If GATT could be put under a comprehensive trade organization, then tariff reductions made through the United Nations would apply to the socialist countries also. In the longer run, an ITO might forestall the movement toward Atlantic integration. Thus, while closed economic groupings like EEC would continue to exist, any larger economic association formed against the Soviet bloc by means of mutual tariff cuts would be impossible.

In addition, Moscow expected the ITO to facilitate an expansion of East-West trade. For nearly a decade there had been a growing tendency in the socialist sphere to make better use of the comparative advantages of international specialization and to seek, above all, an economic opening to the industrial and technological advances of the West. The Soviet leadership may well have felt that a new trade agency with a wide field of competence would be a forum where greater contact between East and West could be developed on more favorable terms than was possible through bilateral channels or the UN Economic Commission for Europe, in which communist trade initiatives had not fared well.



Moreover, the smaller states of East Europe had always counted on increased trade with the West and the USSR may have felt compelled to act on their behalf. The projected role of the ITO in promoting the economic and social progress of the developing countries, on the other hand, received far less urgent attention in Soviet discussion outside of the United Nations. Similarly, the volume of East-South trade was said to be mainly dependent on whatever additional foreign exchange the socialist states obtained from increased commerce with the West.<sup>28</sup>

An International Trade Organization was intended to serve two further Soviet objectives, albeit relatively minor ones in Moscow's overall strategy at UNCTAD. First, as we have seen, the UN's work in the field of international trade was complicated by the failure to develop through the proposed Havana Charter an integrated approach to the problems involved, and by the consequent proliferation of agencies, both within and outside the UN system, dealing with one or another aspect of these problems. The Soviets had been particularly bothered by this haphazard situation and envisaged an all-embracing trade organization fulfilling one of the main functions expected of the original ITO: to act as a coordinating agency which would assign priorities and establish a rational division of labor to the UN's trade activities as a whole.<sup>29</sup> Moscow might reasonably

expect that a new trade forum under tripartite control would not only devote more resources to neglected Soviet hobbyhorses, but would also curb the steady increase in the independence and power of UN economic agencies and the trend toward rising costs and expanding staffs. In this connection, the USSR's long-standing reputation for being "the first to criticize and the last to pay" was probably strengthened during the 1964 institutional controversy.

In the second place, an ITO was seen by the Soviets to have propaganda value in the United Nations. Obviously, maximum publicity and support could be most easily obtained if the new organization were projected in public debates as being for the benefit of the developing countries. But beyond this, by pushing forward most of the economic grievances of these countries under the umbrella of one vast reorganizational plan, the USSR obviated the necessity of setting out detailed remedies for these grievances. Insofar as the trade and development problems of the poor nations were voiced by Soviet spokesmen at UNCTAD, it was evident that Moscow was less interested in their solution than in their anti-Western potential.

The USSR overestimated both the specific attraction of an ITO to the developing countries and the general inclination of these countries to embrace any Soviet scheme at UNCTAD. As we have seen, the developing countries showed

no early penchant for joining the Soviet campaign for the immediate establishment of a world trade organization, some on grounds of principle and the majority because they felt it impractical to engage in an exercise doomed to failure, as was the Havana Charter. Moreover, the fact that the idea of creating an ITO emanated from Moscow automatically rendered the project suspect to the major trading states of the West, whose participation and goodwill were essentially to keep the whole Conference afloat. Finally, Third World solidarity was determinative: the Group of Seventy-Five was not about to break party lines and allow a Northern power to assume the initiative or leadership on any major issue.

Apparently the Soviet leadership harbored no illusions about its ITO project being accepted by the Western powers. The latter were on the whole intent on preserving GATT and retaining the overall responsibility of the General Assembly's Second Committee and ECOSOC in the field of trade and development. The USSR, as opposed to this state of affairs, sought to establish a comprehensive and autonomous trade organization, with its activities subject only to very general scrutiny by the Assembly. One Soviet commentator stated that the ITO should have "definite executive powers" in order to cope effectively with the problems of the less developed countries.<sup>30</sup> Since these problems were blamed.

by the Soviet Union on the policy of the Western powers, it was fairly clear against whom these wide powers were expected to be directed. The permanent machinery of the ITO was, as noted earlier, to be directed by a Secretary-General and his Deputies representing the three groups of states in the world. Those who objected to a "troika" being enshrined in the UN Secretariat were not likely to welcome the same principle in the operation of a world trade organization.

The Soviet blueprint for an ITO was, in point of fact, not designed for the purpose of being generally accepted. Indeed, it was expressly designed to be rejected by some countries, which were thereby expected to be disgraced in the eyes of the rest of the world:

The attitude of any state towards the International Trade Organization is a kind of touchstone for testing that state's policy, to show whether or not it accords with the task of developing international economic cooperation.<sup>31</sup>

The USSR used this same sort of "test" during early ECOSOC discussions on the proposed Conference in an attempt to vilify the reluctant Western attitude towards the convening of UNCTAD itself.<sup>32</sup>

In short, Moscow saw the launching of a new world trade organization as a way to restructure the existing international economic system and bring pressure to bear on Western trade and development policies regarded as

inimical to Soviet interests. It also seemed a way to remodel the UN's economic house and form a partnership with the less developed countries at UNCTAD. Once the actual Conference got underway, of course, Moscow could de-emphasize the propaganda potential of the ITO project and tend to the more important Soviet concerns it represented.

#### Other Preparatory Activities

The work of the Preparatory Committee has been praised by some observers,<sup>33</sup> criticized by others.<sup>34</sup> It should be taken into account that the actual task of the Committee under ECOSOC Resolution 917 (XXXIV) was limited to the consideration of the agenda and documentation for the Conference. Furthermore, the issues to be sifted through were of an extremely comprehensive and complex character and heavily loaded with far-reaching political and economic implications. Most countries participating in the Committee's work had either not yet defined their position on the matters under discussion or were hesitant to make their position known at that early stage.<sup>35</sup> It is doubtful, therefore, whether the Committee should be censured for not having succeeded in assessing the problems of international trade and development, let alone for not having proposed practical and generally acceptable solutions.

Because of the more common interests of their state members, the various regional political and economic organizations appeared to be a much more suitable platform for planning concerted policies and strategies for UNCTAD than the official Preparatory Committee. Consequently, most of the important consultations for the Conference took place in such organizations as the UN Economic Commission for Asia and the Far East, which issued the "Teheran Resolution on UNCTAD;" the Organization for African Unity, which produced the "Niamey Resolution on UNCTAD;" the UN Economic Commission for Latin America, which set forth its "Brasilia Declaration;" and the Organization of American States, which adopted the "Charter of Alta Gracia." In addition, the UN Economic Commission for Europe, the European Economic Community, the European Free Trade Association, the Council for Mutual Economic Assistance, the International Monetary Fund, and a host of other regional and world organizations also submitted position papers and technical studies to the Conference.<sup>36</sup>

Most of the less developed countries' resolutions adopted on the eve of UNCTAD-I made reference to the Geneva Declaration and laid emphasis on the necessity for broad cooperation with other developing regions under the auspices of the Group of Seventy-Five. Like the

Geneva Declaration, all of these documents contained a repetition of the developing countries' demands and were, therefore, basically political in nature. The developing countries, aware of the relatively marginal interest of the North in expanding and facilitating economic relations with the South, and of the fact that the cold war was no longer an automatic stimulus to aid-giving, sought to secure a stronger bargaining position for themselves by continuously belaboring their argument that a new trade and development policy was a top priority problem in international politics. Moreover, by advertising again and again the high hopes they held for UNCTAD, the less developed countries endeavored to shape world public opinion and thereby place the developed countries beforehand under strong moral pressure to fulfill at least some of their expectations.

At the same time, the declarations adopted at the various regional preparatory meetings of the developing countries showed less than complete agreement on most major issues in the period before the Conference. Within the General Assembly, ECOSOC, and the Preparatory Committee, where experienced statesmen could temper demands that would be unacceptable to the major trading states, there had been no mention of an ITO in any resolution or the adopted agenda.

But in the Asian, African, and Latin America preparatory consultations prior to UNCTAD, differences came to the fore.

The Asian "Teheran Resolution" presented a fairly moderate plea for "a new international division of labor" and did not call for a world trade organization. But the African and Latin American declarations, prepared at Niamey and Alta Gracia, were highly emotional and accusative in character, stressing the unfairness of prevailing trade and production patterns and demanding the swift establishment of a new UN trade agency to meet the needs of the less developed sectors of the world economy.

The wide publicity and acclaim given by the developing countries to their regional preparatory meetings and to the resulting declarations presented a striking contrast to the silence which surrounded the pre-Conference consultations between Western states within the European Economic Community and the Organization for Economic Cooperation and Development.<sup>37</sup> Initially, UNCTAD was not taken seriously and the main purpose of the West was simply to elaborate a defensive posture: to react to and blunt the demands of the developing countries, to keep East-West issues out of the Conference and, above all, to prevent the establishment of any new distinct organization in the trade field. Once the Conference reached the actual planning stages, however, grave differences of opinion emerged within the Western group on the long-range solutions for the economic problems of less developed countries to be discussed, as well as the tactics to be adopted at Geneva. One principal cleavage occurred



between the more advanced and less advanced states. The larger, highly developed Western powers were reluctant to meet Southern demands since, at least in absolute terms, they would bear the burden of any measures to be taken. The smaller, less advanced Scandinavian countries assumed a more positive attitude on certain issues because of their own economic interests and their predisposition towards multilateral cooperation and the United Nations system. Another important division, involving the Common Market members under French leadership and the other developed countries led by the United States, had ramifications on nearly every issue to be considered at UNCTAD. Domestic politics seemed to play an inordinate role in shaping the attitudes of some Western countries toward the Conference.<sup>38</sup> Most of the developed states, as was noted, wanted to reserve their position in order not to weaken their bargaining strength at Geneva, and others were reluctant to anticipate the outcome of the Kennedy Round of tariff negotiations within GATT, slated to start in early May 1964. The result was a broadly worded policy paper adopted at the annual OECD ministerial meeting in November, 1963 which left each member his freedom of action. The Western trade ministers at the Paris session could do no more than voice "the determination of their governments to prepare for the United Nations Conference on Trade and Development in a constructive manner."<sup>39</sup>

### The Set-Up of the Geneva Conference

One hundred and twenty countries gathered at the Palais des Nations in Geneva to take part in the United Nations Conference on Trade Development from 23 March to 16 June 1964. These countries were represented by some 1,500 delegates in all. Officials of the UNCTAD secretariat and representatives of governmental and non-governmental international organizations brought the number of people participating in this enormous, sprawling Conference up to roughly 2,000. Abdel Moneim Kaissouni, then the Vice-President of the United Arab Republic, who had presided over the Cairo Conference of developing countries, was elected President.

In accordance with the Preparatory Committee's recommendations on organizational arrangements,<sup>40</sup> a General Committee comprising the Conference President, the Conference Rapporteur, the twenty-seven Vice-Presidents, and the Chairmen of the five Main Committees was established to assist the Conference President in the general conduct of the Conference and to ensure coordination of its activities. The division of work between the five Main Committees was set up as follows: the First Committee, on international commodity problems; the Second Committee, on trade in manufactures and semi-manufactures; the Third Committee, on the improvement of invisible trade of developing countries and financing for an expansion of

international trade; the Fourth Committee, on institutional arrangements, methods and machinery to implement measures relating to the expansion of international trade; and the Fifth Committee, on expansion of international trade and its significance for economic development and on the implications of regional economic groups. The Third Committee also dealt with some aspects of international compensatory financing. Each country participant was entitled to take part in the activities of each of these Main Committees. Most countries made use of this prerogative, giving UNCTAD the outward appearance of a series of more or less parallel conferences. In fact, however, the Committees proved unwieldy and the bulk of the work was accomplished by special drafting parties and conciliation groups.

Voting at the Geneva Conference was based on the principle of one state, one vote. Both in the plenary session and in the Committees each state participant, without regard to its population, financial resources, share of world trade, etc., had equal voting powers, i.e., one vote only. This gave the developing countries throughout UNCTAD a permanent and unassailable majority when they chose to exercise it. Under the rules of procedure, decisions of the Conference in plenary session on "matters of substance" could be taken only by a two-thirds majority of representatives present and voting; representatives present but abstaining from voting were considered as not voting. In the Committees and sub-committees a simple

majority--also of representatives present and voting--sufficed.

The Secretary-General and Conference secretariat were entrusted principally with the task of providing the delegates with adequate documentation, though Dr. Prebisch's personality and convictions soon transformed the secretariat into a major independent force which actively espoused controversial points of view on behalf of the developing countries. The UNCTAD secretariat, apparently working on the assumption that a good expert study can exert a significant influence on the national policies of governments, supplied the delegates with a prodigious amount of solid documentation, most of which was later included in the official eight-volume, 3,200 world UNCTAD proceedings. This plethora of highly technical literature--"the largest body of information and analysis of the trade problems of developing countries so far assembled"<sup>41</sup>--appears to have overwhelmed rather than encouraged the delegates to study it within the short time available. One result was to give greater importance to Dr. Prebisch's brilliant and concise but, some charged, extremely one-sided report to the Conference, entitled "Towards a New Trade Policy for Development."<sup>42</sup>

### The Prebisch Report

Both in its diagnosis and its prescriptions the Secretary-General's preparatory report to the Geneva Conference gave new impetus to the principal demand of the developing countries for a positive international trade policy to promote economic development. The report centered on two concepts: the "Prebisch gap" and the "Prebisch effect."<sup>43</sup> Briefly, the "Prebisch gap" was that in a period when the developing countries' need for imports of development goods and for technical knowledge was increasing, they were faced with a situation in which their foreign exchange and capacity to import goods and services were inadequate. The growth of import requirements was not matched by a commensurate expansion in export earnings. The problem on the import side was that the developing countries depended on trade to deliver a substantial amount of capital equipment necessary for development. Also, as incomes rose, consumers in the developing countries could afford more expensive goods which generally had to be imported. On the export side, the problem was that most developing countries had little to trade apart from agricultural and mineral products, for which world demand had increased only slightly in the postwar period. Factors contributing to the sluggishness of primary product exports included the low response of consumer demand for foodstuffs in the advanced countries

where incomes and food consumption were already high, the protective barriers for agriculture erected in these countries, and the widespread use of synthetics and substitutes for natural raw materials.

The report took all this as evidence of a "structural assymetry" in international trade working against the less developed countries. Dr. Prebisch calculated that the resultant trade gap would reach \$20 billion a year by 1970, assuming imports sufficient to meet the minimal five per cent annual economic growth rate set as the target for the first UN Development Decade.<sup>44</sup> Half of this gap, he estimated, could be filled by foreign aid and foreign private investment. Yet the servicing of these debts already imposed a heavy burden on the developing countries and some \$10 billion remained to be financed through increased exports on the part of these countries.

But, the Prebisch report claimed, the prospects for these increased export earnings were severely limited by a secular downward trend in the terms of trade of the developing countries. Many of these countries were faced with declining prices for their exports of primary commodities at a time when prices of their imports were rising. This, together with the heavy dependence of individual developing countries on commodity exports, reduced their capacity to import. The efforts of these countries to solve their difficulties through planning were often

hindered by the instability of international demand for primary products and by conditions restricting the access of their products to the markets of the industrialized countries. This built-in bias against the trade of the developing countries was the "Prebisch effect."

The Secretary-General's report concluded that the only escape for the developing countries from this chronic deterioration in their terms of trade lay in a long-term shift of their production patterns towards industry and other non-primary activities. It acknowledged that the process of diversification would be arduous and that it demanded a level of investment which was beyond the capacity of the developing countries to finance themselves.

This conclusion led to one of the key passages of the report, which called upon the industrialized countries to take "a political decision of the first importance," amounting to a recognition that countries experiencing adverse terms of trade have a prima facie claim upon additional international resources.<sup>45</sup> The significance of this passage is that, having diagnosed the major trade problems facing the developing countries, Dr. Prebisch prescribed more aid. Admittedly, the volume of aid might be related to preferential trade schemes or disguised as compensatory finance, but the transfer of resources would still depend on a conscious political decision by the donor countries. On the face of it, UNCTAD was launched under

the slogan "trade, not aid." In practice, both the Prebisch report and the Geneva Conference dispelled any idea that the proposed "new trade policy for development" would be the product of hard-headed commercial bargaining; indeed, the whole UNCTAD approach was based on the premise that classical trade theory and the free play of market forces--i.e., the economic underpinnings of GATT and other Northern-dominated trade and financial institutions--were not sufficient mechanisms for the re-allocation of the world's resources.

The Soviet Union apparently made its views known before the Secretary-General's preparatory report was drafted, because the claims directed to the socialist countries were very mildly formulated in the report, especially if compared with those directed to the developed private-enterprise countries. There is a fine irony here. Consider first the following table:<sup>46</sup>

EXPORTS OF DEVELOPING COUNTRIES (in millions of dollars)			
	1955	1962	Annual Rate of Growth in %
To industrialized private-enterprise countries	17,120	21,030	2.0
To developing countries	5,840	6,550	1.6
To CMEA / Soviet Bloc / countries	<u>445</u>	<u>1,420</u>	18.0
TOTAL EXPORTS	23,957	29,630	3.1



Source: Towards a New Trade Policy for Development, Report by the Secretary-General of UNCTAD, Proceedings of the United Nations Conference on Trade and Development, vol. II (New York: United Nations, 1964), p. 48.

During the 1955-1962 period Soviet bloc exports to the developing countries rose from \$420 million to \$1,910 million, giving the bloc a net favorable balance of trade with these countries. Furthermore, the Soviet bloc neither expected nor was expected to run up trade deficits with the developing countries. The Prebisch report stated:

It has been suggested that, in view of the different role of tariffs in the two economic and social systems, consideration should be given to the possibility of reducing internal prices in socialist countries as a counterpart to the lowering of tariffs by private-enterprise countries. This, however, would not bring about the desired effect. A lowering of prices in socialist countries would not by itself promote higher imports, as a reduction of tariffs does in private-enterprise countries. The level of imports in socialist countries depends upon the provisions made in the economic plans, which are in turn based upon expected exports. Thus, an increase in exports would be required to permit an expansion of imports, and only then would a lowering of prices have meaning in stimulating the consumption of larger quantities of imported goods. In turn the level of exports depends on the one hand, on the ability of socialist countries to satisfy the requirements of developed countries and, on the other hand, on the willingness of the latter to import from them.<sup>47</sup>

While imports by the Soviet bloc of foodstuffs, raw materials, and consumer goods had risen significantly, the report stressed that "the amount of foreign exchange

available for such imports is still necessarily limited by the total volume of resources that can be obtained from the market of their exports abroad." In addition, whereas the Western states were called upon to facilitate and expand their trade with the developing countries through multilateral preferential treatment, the Soviet bloc was permitted bilateral and other special arrangements, such as long-term mutually advantageous contracts, dictated by the structure of the centrally-planned economy. Perhaps most importantly, the Prebisch report gave credence to the Soviet view that, at least for economic reasons, the socialist Northeast should be demarcated from the capitalist Northwest in any perspective of the Northern industrial world.

Three conclusions are possible: first, the dogma of Soviet economic planning is as rigid as the Western law of supply and demand; second, the semi-developed Soviet bloc economies do not fit neatly into a North-South scheme; and third, prior to the drafting of the Secretary-General's report the USSR served notice that it would not consider the demands to be made at UNCTAD as addressed to the bloc.

The Prebisch report also contained important considerations about the institutional issue. Reflecting on the widespread preoccupation about the role and future of GATT, the report pointed out that, following the inter-war period of chaos, the General Agreement had introduced a new rule

of law in world trade and that, whatever the particular character of that law, the decision of governments that world trade should be subject to it was in itself of vital importance.<sup>48</sup> The Secretary-General listed as a second virtue of GATT its machinery for complaint and consultation but noted that this procedure was often not effective in practice. Although GATT had brought about considerable reduction in tariffs and other restrictions, these reductions were seen to benefit mainly the major trading states. Since the Haberler investigation, however, GATT had been making "a serious effort to conduct its activities in a way that would take more adequate account of the unsatisfactory position of the developing countries in world trade." The report gave strong endorsement to the GATT Program of Action and similarly stressed the "very efficient" secretariat of GATT which had shown "its ability to adapt itself to the changing realities of the times." In the Secretary-General's view GATT should be evaluated within a broad perspective for "we can now see clearly things which were still confused and vague in the Havana days." GATT had not been as efficacious for the developing countries as for the industrialized Western states because the General Agreement was based on the classical concept that free trade leads by itself to the most efficient utilization of the world's resources, and because the spirit and sometimes the letter of the rules and principles which

had been established to guarantee a liberal trading system had not always been respected.

The Prebisch report also summarized the arguments which had been generally advanced concerning GATT during the preparatory stage of the Conference. It was noted that GATT, apart from being far from universal in membership, dealt with problems of international trade in a fragmentary fashion and "not as part of a general problem of development which must be tackled on various fronts and with clearly defined objectives." Although GATT had shown itself to be a suitable instrument for dealing with trade problems among the industrialized Western countries, it had not proved effective in coping with trade between industrialized and developing countries nor with promoting trade relations among the developing countries themselves. The General Agreement had been conceived as an instrument for expanding international trade by means of the tariff system; trade between governments was regarded as an exception. Consequently, the Soviet bloc countries which regulated their trade mainly by bilateral arrangements had remained outside of this institution. Finally, it was pointed out that agreements and other activities relating to primary commodities had been negotiated outside GATT and were not subject to coordinated action.

The Secretary-General concluded that "the conviction has grown that some kind of new trade organization is needed

in one form or another" and stressed that the United Nations was capable of assuming much greater responsibilities in this field. The report contained an outline of institutional machinery quite similar to that proposed by the moderate developing countries in proposal IV of the group of experts' report based on period UNCTAD conferences, a standing committee, and "an intellectually independent secretariat with the authority and ability to submit proposals to Governments within the framework of the United Nations." This formula represented an attempt to have the best of both worlds--to give the developing countries and the Soviet bloc all the advantages of an ITO without the obvious juridical, political, and practical disadvantages inherent in creating a full-fledged trade organization.

Towards a New Trade Policy for Development proved to be an important yet highly controversial document. It presented a comprehensive but partisan program of international resource redistribution, and it largely determined the proceedings of the discordant Geneva Conference, of which Dr. Prebisch was to an extraordinary degree the guide and mentor. The content of the report was essentially a summing up of the theory of the peripheral economy developed earlier by Dr. Prebisch, extended with some new and bold policy recommendations. Many Western economists, while sharing the imperative of development and at least some of

Dr. Prebisch's prescriptions, questioned the validity of the conceptual and statistical reasoning behind the peripheral theory,<sup>49</sup> particularly the Prebischian view of a chronic deterioration in the terms of trade. The base year chosen to demonstrate this argument--1950--was a year in which commodity prices were unusually high due to the Korean War. While serious problems did exist in some commodities, the overall picture was seen to be more one of price instability than continuous decline. Similarly, the projected trade gap of \$20 billion by 1970 was widely regarded as a dramatizing statistic, subject to sharp downward revision.<sup>50</sup> These and other problems with Dr. Prebisch's analysis led a number of economists to conclude that the peripheral theory was too weak to serve as an economic rationale for the transfer of resources at the international level by the proposed means of commodity agreements and compensatory financing.<sup>51</sup> Outside of professional economic circles, the Prebisch report was reproached from a political point of view. Taking into account the magnitude of claims directed at the major trading states, Western officials criticized the report's disproportionate handling of the other side of the coin--the responsibilities of the developing countries for undertaking greater domestic reforms.<sup>52</sup> In addition, there was probably some fear that the Prebisch report's emphasis on state action in trade might pave the way for

the developing and the socialist countries, by means of their numerical superiority, to dictate the rules in a new institutional framework, even though the volume of world trade that they accounted for was very small.

Moreover, the preparatory report was meant to constitute a working basis for the discussion of complex political and economic issues at UNCTAD-I.<sup>53</sup> The way in which these issues were initially tackled by the Conference secretariat might be of vital importance for their outcome. One would expect Dr. Prebisch, an economist of international reputation acting in his capacity as Secretary-General of the Conference, to make clear that the views elaborated in the report were largely his own, or at least to indicate the existence of divergent schools of economic thought. Unfortunately, Dr. Prebisch chose to do neither. This was particularly regrettable because he was not writing for a small group of professionals in the field. Dr. Prebisch was writing for a much wider public and, as was to be expected, this public was disposed to accept the report with its aura of scientific and political objectivity as the pure and gospel truth. This was especially true of the developing countries which wholeheartedly embraced the Prebisch doctrine as their platform at Geneva. G.L. Goodwin, who has commented on this aspect, wrote that:

Most developing countries at UNCTAD were not concerned, however, with the validity of these two doctrines [meaning the doctrine of an ever widening trade gap and steadily deteriorating terms of trade] which they accepted almost without question or reservation as the bases for all discussions about future trade and development programmes. To question them, however mildly, was regarded as almost an act of sacrilege which threatened to provoke an emotional storm, particularly amongst the many young and inexperienced delegates who saw in them a satisfying simple explanation for their countries' difficulties, and one which placed the onus fairly and squarely on the shoulders of the industrialized countries.<sup>54</sup>

The developed countries--both Western and communist--were consequently placed at a disadvantage from the outset of the Conference since discussions were based on a set of premises which they did not altogether share. As a result, UNCTAD-I threatened to degenerate into a mere talking shop, with the Group of Seventy-Five developing countries taking positions as a matter of principle and indulging in "voting-power politics," and the developed countries neither prepared for the encounter with the united Group of Seventy-Five nor willing to implement resolutions on which they had been outvoted.

In this light, the prudence of the developing countries in linking their claims for development assistance with a particular economic theory, especially a highly controversial one, was questionable. In another light, however, the Prebisch doctrine served a worthy purpose: it sharpened awareness of existing trade and development problems and



stimulated the major trading states, even when rejecting Southern demands, to come up with something in the way of alternative solutions. As the Soviets who ignored the Secretary-General's preparatory report were presumeably aware, controversial economic theories can indeed be an important factor in bringing about change in world affairs.<sup>55</sup>

#### The Work of the Fourth Committee

The Fourth Committee devoted the first part of its work to a review and appraisal of existing international institutions in the trade and development field. The prolonged general debate was necessarily superficial because delegations were basically preparing the political and tactical grounds for the hard bargaining that would follow the submission of actual draft resolutions. Only one concrete proposal--the ITO blueprint previously submitted by the Soviet Union, Czechoslovakia and Poland to the Preparatory Committee--was circulated.<sup>56</sup> To a large extent the discussion centered on GATT and the uncertain outcome of the Kennedy Round of tariff negotiations. Several socialist and developing countries also made reference to the limited developmental role played by the International Monetary Fund and the World Bank and criticized the fundamental concepts and weighted voting system of those financial institutions. The USSR expressed its concern about the proliferation of UN agencies, the dispersion of responsi-

bilities and efforts, and the absence of a comprehensive and universal organization around which an effective trade policy could be built. The Soviet representative emphasized that the very convening of UNCTAD was proof that the existing institutional framework was neither able nor suited to handle all of the relevant problems in the field.<sup>57</sup>

Most Western countries reiterated the argument that the wise course would be to allow GATT to continue to evolve along present lines and stressed that its replacement by new machinery would not in itself be sufficient to create the requisite political will for greater international trade cooperation. Some Western delegates, however, had apparently accepted the idea that a decision providing for new institutional arrangements was unavoidable and that the Committee should therefore strive to hammer out a generally acceptable formula. The representatives of the United States and the United Kingdom proposed "a common search for ever widening areas of agreement" and stated that the Secretary-General's proposal for periodic conferences and a standing committee "deserved serious consideration."<sup>58</sup> There was a sharp exchange between the Soviet and British delegations when the latter expressed surprise that the USSR, which had declined to attend the Havana Conference, was now so eager to see an ITO established. The Soviet representative replied that his country "would have been ready to accede to the Havana Charter if certain provisions

directed against the socialist countries had been deleted from it."<sup>59</sup> The French delegate then joined the fray. He pointed out that any trade organization must be founded on a charter defining the legal rights and obligations of the contracting parties and asked what obligations the Soviet Union was prepared to assume. The Soviet representative asserted that the USSR would accept and respect an ITO charter but considered that it would be unjust to subject all states to the same rules: the Western countries, which had long enjoyed trading advantages in their colonies and obtained considerable profits through exploiting them, should grant favorable trading conditions to the developing countries without expecting reciprocity; for its part the USSR, despite the fact that it never had the same privileges, was willing to support the views of the developing countries and work for the creation of a trading system based on equality and mutual advantage.<sup>60</sup>

During the general debate in the Committee the less developed countries were more divided than usual at UNCTAD. While some, notably Ghana and Ethiopia, voiced support for the Soviet-backed ITO plan, others seemed to accept the view of the Western countries that existing institutions should be made responsible for implementing the decisions to be taken by the Conference. A large majority, however, favored the transitory scheme suggested by Dr. Prebisch in his preparatory report--i.e., periodic conferences on trade

and development, a standing committee and a permanent secretariat. The delegate from India stated that GATT had done "good and essential work" and should be enlarged and remodeled in order to provide for bilaterally balanced trade exchanges with the centrally-planned economies and to secure greater access for the products of the less developed countries. Along with a reconstituted GATT, the Conference should meet every two or three years for the discussion of broad issues concerning economic development and trade and aid. He envisaged the policy-making Conference and GATT as mutually complementary so that the decisions of the Conference would be implemented in the form of contracts and agreements which, as far as possible, would be incorporated into the General Agreement.<sup>61</sup>

It would seem, in light of the nod of approval given by some Western powers and most developing countries to the Secretary-General's institutional scheme, that the basic elements of the last-minute compromise arrive at outside of the Fourth Committee were already present at the beginning of the Committee's debate. Yet, when actual draft resolutions were submitted to the Committee, there were widely diverging positions. At this slow, insecure state of the Conference formal proposals were generally tactical moves designed to gain bargaining power with a view to an eventual abatement of differences.

Moreover, it is noteworthy that once draft resolutions were circulated the Fourth Committee hardly met and when full sessions did take place delegations did not concentrate on a detailed discussion of the issues involved but took up political postures, elaborating their own proposals and, with varying degrees of vehemence, attacking the counter-proposals. The real negotiations took place in small, private, informal meetings which tended to make the full Committee sessions increasingly short and superficial. In point of fact, the Fourth Committee held a total of forty-one meetings between 1 April and 9 June 1964, of which about half were devoted to the general debate and another five to the consideration of the final report. Thus, approximately fifteen meetings were designated for the discussion of proposals but several of these were used only to receive progress reports on the negotiations proceeding behind the scenes. Some meetings lasted only a few minutes while others were cancelled after having been scheduled.<sup>62</sup>

#### The Developing Countries Submit Concrete Proposals

At the seventeenth Committee meeting five developing countries--Burma, Ghana, Indonesia, Nigeria, and Syria--submitted a draft resolution containing concrete and detailed proposals for the establishment of UNCTAD as a permanent organ of the General Assembly under Article 22

of the Charter.<sup>63</sup> The Conference was to meet automatically every three years and would become a standing organ of the United Nations "until the United Nations Conference on Trade and Development (UNCTAD) is established." The Conference was to "exercise overall responsibility, under the authority of the General Assembly, for the promotion of international trade and development" and become a centre for harmonizing the policies of governments and regional economic groupings. It was to coordinate and supervise the activities of other institutions operating in the field. A Trade and Development Council was to become "the standing executive organ of the Conference," its membership to be "approximately one-half of that of the Conference" in accordance with the pattern of geographical distribution established for the General Committee of UNCTAD. The draft resolution also provided for the creation of specialized commissions and mentioned, in particular, commissions to deal with commodities, manufactures, financing, and invisibles. In a section devoted to GATT it was recommended that this institution be placed under the jurisdiction of the new machinery. To that end, the Contracting Parties to GATT would "follow the principles and policies established by the Conference and the Council, by bringing about the necessary changes in the Agreement and its application." It added that GATT would become "a commission on tariffs" and its Executive-Secretary would be appointed by the

Secretary-General of the United Nations upon the recommendation of the Contracting Parties. The regional economic commissions of the United Nations were to become "regional bodies of the Conference" and were to report to it and to the Trade and Development Council. A "permanent independent secretariat" would be headed by a Director-General who would be appointed by the UN Secretary-General with the approval of the General Assembly. The Conference was to have a separate budget. The draft resolution also contained a provision for setting up a Consultative Board comprised of high-level government experts to advise the Director-General on specific problems and in particular to prepare "a study on the principles, terms of reference, and juridical and administrative structure of the United Nations Organization for Trade and Development which would be established in due course."

The proposal of the five developing countries apparently caused a considerable impression in the Committee because other groups were brought closer to the negotiations on future institutional arrangements. The Western states, while privately drafting their own recommendations, publicly reiterated the view that detailed resolutions for new machinery should be examined in the light of the substantive results in other areas under consideration by the Conference. The Soviet bloc was undoubtedly pleased that the five-power draft included provisions for the eventual establishment of

an ITO but expressed disapproval of the uncertain transitory scheme.<sup>64</sup> Among the developing countries the proposal had the effect of encouraging those who favored new arrangements to formalize their ideas. At the next Committee meeting the Latin American countries--with the exception of Cuba--set forth their own joint draft recommendation.

The nineteen-country Latin American proposal<sup>65</sup> was based on the resolutions adopted at Brasilia and Alta Gracia and accordingly called for the establishment of a universal trade organization and for the setting up, in the interim period, of continuing institutional arrangements consisting of a periodic conference, an Executive Council of thirty-four members, three specialized committees, and a secretariat headed by a Director-General. The functions of the conference as defined in the Latin American draft were quite similar to those suggested in the five-country draft, with slight differences of emphasis; the Latin American proposal laid stress on the coordinating role of the conference rather than on its supervisory and "action" functions, most likely because it emphasized the temporary nature of the arrangements. The draft, in fact, stipulated that the General Assembly in 1966 "should consider the question of the establishment of the permanent organization as a separate item of its agenda." The Executive Council would be vested with appropriate powers to carry out the decisions of the conference and ensure



the continuity of its work. While specifying that the Council would be a subordinate organ of the conference, the proposal provided that both the conference and the Council would be organs of the UN General Assembly under Article 22 of the Charter, and would report to it through the Economic and Social Council. The Latin American draft further addressed a recommendation to the Economic and Social Council to "pay all possible attention to the work of the conference and its subsidiary bodies" and to the economic commissions and functional commissions in the economic field "to cooperate fully" with the new machinery. The question of the relations with GATT and other institutions in the field was approached indirectly and without reference to specific bodies; the draft, nonetheless, expressed the clear intent that "members of international bodies or parties to inter-governmental agreements dealing with trade and development problems [should] promote international action or possible reforms designed to facilitate their progressive integration or coordination within the new structural pattern of international trade."

#### A Counter-Proposal by the Western States

The submission of the two proposals by the developing countries marked a perceptible change in the whole approach of delegations toward the work of the Fourth Committee, indeed toward the Conference itself. Whereas previously

attention had been focused on economic matters in other Committees, it then became clear that the developing countries were attaching increasing importance to the perpetuation of UNCTAD in some form of institutionalized machinery. They seemed to have concluded that the success of the Conference largely depended on the establishment of adequate mechanisms to ensure the implementation of the new principles and policies expected to be adopted.<sup>66</sup> By then it was apparent that the Soviet bloc was unwilling or unable to make any commitment of practical interest to the developing countries<sup>67</sup> and that UNCTAD had developed in most respects into a bitter West-South confrontation. Given this political climate and the voting power of the contending groups, the Western states realized more and more that a decision about new institutional arrangements was unavoidable.

This change in the attitude of the Western states involved an important political decision for it constituted a reversal of the policy which had long been held by those states concerning the organization and responsibilities of the United Nations in the economic field. It implied giving new dimensions to the UN's trade and development activities and altering the structure of the existing machinery which the West had vigorously defended throughout the discussions leading to the convening of UNCTAD. The principle underlying that structure was that, on the one

hand, the Economic and Social Council was the supreme coordinating organ of the United Nations in the economic and social field and, on the other hand, that GATT had become the real substitute for an ITO.

But it was also apparent that the Western states were determined to dilute the importance of any new machinery and, conversely, to preserve the powers and functions of the Economic and Social Council and protect the autonomy of GATT. The controversy on this Western strategy was essentially political in character. The developing countries were dissatisfied with the performance of the Council because they considered that it had concentrated unduly on its coordinating role without making a sustained attempt to promote practical measures for international economic cooperation. The Afro-Asian countries in particular were unhappy about the geographical composition of the Council and wanted a more prestigious organization which would operate under their control and in their interests. The Western states were aware that, against this background and given the political atmosphere of the Conference, an effort would be made to limit the voting strength of the industrialized countries within the new machinery, a move which could only be neutralized by ensuring that such machinery was placed under the aegis of ECOSOC.

These considerations were reflected in a proposal

circulated by six Western states--Canada, Japan, the Netherlands, Sweden, the United States, and the United Kingdom--at the twenty-second meeting of the Fourth Committee.<sup>68</sup> The draft recommendation envisaged only the bare essentials of the Prebisch institutional formula: periodic UNCTAD Conferences, a standing committee, and adequate secretariat arrangements. Unlike the two proposals of the developing countries, the six-power Western draft made no reference to the immediate or future establishment of an international trade organization within the United Nations system. Another difference was that, whereas the five-country proposal had completely ignored the Economic and Social Council and the Latin American countries only referred to it indirectly, without in any way placing the new scheme under the purview of the Council, the Western proposal emphasized time and again that the new institutional arrangements should become part of the ECOSOC machinery. Thus the Conference--to be convened every three years--would not become an organ of the General Assembly or even the Council, but would continue to be convened by the Council as was the 1964 Conference. The Conference would report to the General Assembly through the Council. The Commission on International Commodity Trade, which had been established as a commission of ECOSOC in 1954, was to be expanded in membership and transformed into the standing committee of the Conference as the Commission for

International Trade. Other provisions of the Western draft which also involved important differences of approach to various matters included the suggestion that "in accordance with Article 101 of the Charter..., the Secretary-General of the United Nations should make such additional arrangements as may be necessary to assure that an adequate secretariat is available to service the Conference and the Commission for International Trade." In referring to Article 101, the draft clearly implied that the secretariat of the new scheme should become an integral part of the UN Secretariat, thus rejecting the notion introduced in the proposals of the developing countries that it should be "separate" or "independent." Regarding relations with GATT, the Western draft provided that GATT would submit annual reports on its activities to the Economic and Social Council and that the Council would transmit to GATT comments and recommendations based on the consideration of such reports by the Commission for International Trade. The proposal stipulated that participation in the Conference would be limited to "States Members of the United Nations, the specialized agencies or the International Atomic Energy Commission." The most controversial provision of the Western draft was, however, the introduction of the concept of equal representation of the developing and the developed countries, including the principal trading states,<sup>69</sup> on the Commission for International Trade, a

provision which, in fact, implied the adoption of a system of weighted voting within the new institutional arrangements. The voting issue assumed central importance in the negotiations that followed and indicated that, whatever the structure of the continuing machinery, the major trading states were determined to have the strongest voice--or, in the words of the developing countries, "a veto"--in the decisions of the proposed institution.

In introducing the six-power draft to the Committee, the representative of the United States said that the two main objectives of the recommended machinery were to "make maximum use of existing institutions in order to avoid waste and duplication of efforts," and to "assure an integrated attack on the problems of trade and development...by binding together more effectively the activities of the United Nations in the economic and social field." He explained the rationale of the Western proposal in this way:

The draft recommendation did not provide for an international trade organization but it did provide an alternative designed to promote the same objective more quickly and efficiently. The need for action was urgent. There was no prospect now or in the foreseeable future for the ratification of a new ITO by the principal trading countries....What mattered in the last analysis was not form but substance, not appearance but results.<sup>70</sup>

The Soviet delegate countered that the six-power draft would achieve the establishment of only one more

commission within the framework of the ECOSOC, and that it did not even provide for the appointment of an individual who would have the responsibility of direction that organ. The proposal was merely "an evasion of any real solution, an attempt to consolidate the existing situation." The representative of Mexico contended that the Western draft "submitted under the pretext of economy, was like a garment made of rags and patches." The Yugoslav delegate expressed "deep disappointment" with the text, and the representative of India asserted that it was "contrary to the very purpose of the Conference and by no means what the developing countries desired." The solidarity of the developing countries during the long Committee meeting had been impressive: all supported the five-country and Latin American proposals, all expressed resentment at the West's refusal to participate in a new trade organization, all ignored the Soviet bloc's radical ITO plan. The work of the Fourth Committee now entered the second and more important phase of informal detailed negotiation of the institutional issue. Six days later--12 May 1964--Ambassador K.B. Lall of India openly announced in a formal press conference the formation of a common front of the developing countries--the Group of Seventy-Five--for the rest of the Conference.<sup>71</sup>

All Groups Submit Revised Drafts

Following the general consideration of the four proposals to the Committee, and after several informal discussions, three revised drafts were introduced at the thirtieth meeting, one reflecting the views of the developing countries, one from the Western states, and one from the Soviet bloc. The developing countries introduced a joint proposal<sup>72</sup> based on the combination of the five-country and the Latin American draft recommendations with certain changes in style and an important modification on the relationship of the proposed institution with GATT. Almost simultaneously, the Western group submitted a revised fifteen-power version of their own proposal,<sup>73</sup> and the Soviet bloc followed suit by revising their original draft<sup>74</sup> to the effect that it no longer envisaged the immediate establishment of an ITO but included a transitional scheme--Conference, standing committee, and secretariat--very much along the lines of the developing countries' joint proposal with some differences in emphasis on such matters as the powers of the standing committee. The ill-starred "troika" plan had been deleted.

The chasm between the revised drafts of the developing countries and the Western states, however, was nearly as wide as before. The only rapprochement appeared to be that the developing countries had deleted the provisions which



implied the amalgamation of GATT with the proposed institution, thus ensuring its constitutional autonomy. It was also apparent that the Western group now suggested slightly looser ties of the new scheme with the Economic and Social Council than in their original proposal, and also provided for a full-time and permanent secretariat. There were still diverging views on several other important issues:

(a) Provisions for an ITO. The developing countries pressed their demand that any new institutional scheme have a transitional character and that, in due course, an international trade organization with universal membership be established within the United Nations system. The revised Western draft remained silent on this issue but seemed to have moved somewhat closer to the position of the developing countries by a new provision whereby one of the basic responsibilities of the standing committee would be to "recommend such organizational arrangements as may appear feasible so as to maximize the beneficial results of trade for the promotion of economic development."

(b) Status of the Periodic Conference. The developing countries' joint proposal continued to provide that the Conference should become an organ of the General Assembly under Article 22 of the Charter, and would thus not be subordinated in any way to the Economic and Social Council. The revised Western draft indicated that an important concession had been made on this matter by providing that the

Conference should be established in accordance with Article 13 and with Chapters IX and X of the Charter, meaning that the Conference should function under the aegis of both the Assembly and the Council without becoming an organ of either.

(c) Functions of the Conference. The developing countries proposed to give the new institution "overall responsibility," including the power to "establish" principles and policies for the promotion of trade between countries at similar levels of development, countries at different levels of development, and countries having different economic and social systems. In the revised Western draft, the functions of the Conference had been somewhat broadened, but it was stipulated that the new organization should merely "formulate" rather than "establish" principles and policies, and that its competence extended only to trade between countries at different levels of development or countries having different economic and social systems. This restriction apparently implied that trade between developed free-enterprise countries should be left to GATT. The developing countries' joint proposal gave the Conference very broad coordinating functions, including the authority to receive and evaluate reports of the activities of other institutions in the field. The Western revised draft was still considerably restrictive, inasmuch as the only provision dealing with coordination was that the Conference

should exercise general responsibility over primary commodity trade.

(d) Status of the Standing Committee. A very important difference between the two drafts related to the title and composition of the standing committee. The developing countries advocated that the "Executive Council," which would function as "an initiating, deliberating, executing, and coordinating body," should be composed of fifty-two members elected on the basis of the formula of equitable geographical distribution adopted by UNCTAD for its General Committee. This would have meant twenty-three seats for the Asian and African countries and Yugoslavia; nine seats for the Latin American countries and Jamaica and Trinidad and Tobago; fourteen seats for the Western industrialized states and Japan; and six seats for the socialist states. The Western group, on the other hand, insisted on calling the standing committee a "Commission for International Trade" on the ground that the title proposed by the less developed countries implied placing the committee on an equal footing with ECOSOC. The revised Western proposal had been modified to the effect that it no longer maintained the principle of equal representation of developing and developed countries in the standing committee but provided that it should be composed of forty members, "including the twelve principal trading states participating in the Conference." The division of seats was particularly

important in view of the suggested voting procedure, which was doubtless the most crucial of all issues.

(e) Voting in the Conference and Committee. UNCTAD-I almost foundered on the basic issue of whether decisions of the new machinery should be made by majority voting or by consensus. The developing countries defended the idea of "one country, one vote" as applied in the General Assembly. Their joint draft provided for the adoption of decisions by the Conference on all matters of substance by a two-thirds majority of the representatives present and voting, and by a simple majority on all matters of procedure. Within the standing committee all decisions would be taken by a simple majority of the members present and voting. The Western states proposed that recommendations of the Conference would require a two-thirds majority, including a majority of the twelve principal trading states present and voting. Similarly, decisions of the standing committee and its subsidiary bodies would be considered adopted if approved by a majority of the members present and voting, including a majority of the twelve principal trading states.

Upon the circulation of the ~~three~~ revised drafts, delegations engaged once more in a round of informal negotiations, the contents and details of which did not reach the floor of the Committee. At the thirty-fifth meeting the Soviet Union abandoned its ITO plan. The representative of the USSR informed the Committee that

the socialist countries had decided to cooperate with the Group of Seventy-Five, as the developing countries' proposal envisaged "a satisfactory transitional arrangement toward the establishment of an ITO." Accordingly, the Soviet bloc would not press its own draft to the vote. As the end of the Conference approached, it was reported that the Western and the developing countries had reached agreement on certain points but that they seemed deadlocked on the crucial issues of voting procedures and membership in the standing committee.<sup>75</sup>

The differences which separated the parties were explained at the thirty-sixth meeting by the Pakistani representative who, on behalf of the "Seventy-Five," stressed that the developing countries could not accept any provision "which would restrict the autonomy of the continuing trade institutions or would subordinate them in any manner to the Economic and Social Council." He added that the new organization should have wide competence in the economic field that the proposal of the Western states which provided that the institution should be entitled to negotiate legal instruments "where the machinery for such negotiations does not already exist" overlooked the fact that "a substantial number of developing countries and most of the socialist countries were not members of GATT." With regard to the membership of the standing committee, he stated that the developing countries could

not accept the concept of permanent, non-elective seats, though "there would be no objection to a gentlemen's agreement or convention which would ensure the election of some of the major trading states." The developing countries further objected to the allocation of fourteen out of forty seats to the Western group as that formula was inconsistent with the pattern adopted for the General Committee of the Conference, according to which the West would have been entitled to only eleven seats. The voting formula proposed in the Western draft was, in the words of the Pakistani delegate, "utterly unacceptable to the developing countries because it gives a virtual veto to six out of the twelve principal trading states over all important decisions" of the Conference and the standing committee.<sup>76</sup>

The representative of Norway explained the position of the Western states regarding the principles that should guide the new organization in the following way:

The institutional machinery dealing with trade in relation to development must be based on two basic considerations. On the one hand it must satisfy the legitimate interests of the developing countries to have a forum where they can highlight their problems and express their views with respect to the appropriate solution to those problems. We all understand that they do not wish to be prevented by special voting procedures from doing so. On the other hand, the developed countries which account for well over 80 per cent of world trade and which will be called upon to cooperate by accepting certain changes in their trade policies, have an equally legitimate interest to ensure that their views are being taken into account. In short, the two groups of countries--the developed and the developing ones--must be partners on an

equal footing in the new institutional machinery. Indeed, recommendations passed by these new organs will only have the necessary weight to lead to concrete action if they are negotiated and not merely imposed by majority vote.

This is the reason why a voting procedure must be found which ensures this cooperation, and a representation must be obtained in the standing committee which corresponds at least to some extent to the magnitude of the respective interests.<sup>77</sup>

The Norwegian delegate also emphasized that more consideration was required to define the proper relationship of the new machinery to existing UN organs and to other institutions in the economic field.

#### Voting and Eleventh-Hour Negotiations

Hurried last minute efforts to reach an agreement on the institutional issue at the Committee level--though still on the basis of private consultations--failed. The closing date of the Conference was approaching, a fact which was welcomed by many developing and socialist states who considered that the proposal of the Group of Seventy-Five should be put to the vote without any further weakening of its terms for the sake of compromise. In fact, these same states had been pressing for and had obtained on several occasions full Committee meetings in order to vote on the Group's draft. On all such occasions, however, the voting had been postponed either at the insistence of the Western group or at the request of those delegates who were participating in the informal negotiations and who claimed

that a compromise was at hand. But at that late state, the timetable of the Conference required the Committee to wind up its proceedings and, though debate was still deadlocked, voting on the proposals became unavoidable.

In an atmosphere of urgency and tension the draft recommendation of the Group of Seventy-Five was thus voted on and approved by 83 votes to 20, with 3 abstentions.<sup>78</sup> The developing and the socialist countries voted for it, the Western states and Japan against, and New Zealand, the Holy See, and Thailand abstained. The representative of France, speaking on behalf of the Western group, stated that the vote should not be regarded as final and that, as a contribution to the search for a general agreement on the outstanding issues, the Western states would not press for a vote on their own proposal.<sup>79</sup> The Soviet bloc and some developing countries argued that the Committee had taken a definite decision, but there seemed to be a consensus that an eleventh-hour attempt should be made to work out a compromise which would enable the Conference in plenary to adopt a unanimous recommendation on institutional arrangements.

Strenuous and almost uninterrupted negotiations followed for several days--and nights--outside of the Fourth Committee in an effort to reconcile the positions of the "Seventy-Five" and the Western group. For that



purpose, the good office of the Secretary-General of the Conference was used, and it was on the basis of the so-called "Prebisch Paper," which was never officially released, that an agreement was finally reached, not without considerable difficulties. As was to be expected, reports on the course of the discussions caused a good deal of bitterness within the Group of Seventy-Five and on Dr. Prebisch fell the responsibility of convincing some "radical" members that they should accept certain provisions of the compromise formula, notably those relating to the structure and functions of the standing committee.<sup>80</sup>

#### A Compromise Is Reached

The agreement reached involved the redrafting of many provisions of the Fourth Committee's adopted text, particularly those regarding the terms of reference of the periodic Conference, its relations to the Economic and Social Council, the number and fields of subsidiary bodies, and the size and competence of the standing committee. The crucial issue of voting procedures was settled through the acceptance by the Western states of the provisions regarding the required voting majorities proposed by the Group of Seventy-Five, and by the latter's acceptance of a conciliation mechanism which would operate within the new machinery, before voting, "to provide an adequate basis for the adoption

of recommendations on proposals of a specific nature for action substantially affecting the economic and financial interests of particular countries."<sup>81</sup> Because of the lack of time to work out the detailed procedures of this mechanism it was decided that the pertinent provisions would be determined by the General Assembly at its nineteenth session on the basis of detailed recommendations of a Special Committee to be appointed by the UN Secretary-General.

The draft recommendation on institutional arrangements, as approved by the negotiators and endorsed by their respective groups, was introduced to the plenary of the Conference as a proposal by its President.<sup>82</sup> It was adopted unanimously on 15 June 1964 and incorporated as Annex A.V.1 of the Final Act of the Conference. The Special Committee on conciliation procedures met in New York from 28 September to 23 October 1964 and submitted a unanimous report containing the terms of the proposed conciliation mechanism.<sup>83</sup> The nineteenth General Assembly, under the no-vote procedure due to the financial crisis, adopted on 30 December 1964 a resolution embodying the texts of the recommendations of the Geneva Conference and of the conciliation procedures proposed by the Special Committee.<sup>84</sup> UNCTAD was thus established as a permanent organ of the United Nations.

A Mixed Reaction in Moscow

An incident which later became well-known occurred at UNCTAD-I during the hectic negotiations of the last few days when final agreement was reached on the institutional issue. The USSR, which had not been a party to the discussions, called a hasty press conference to warn the Group of Seventy-Five not to let the Conference "stick in the mud of an unscrupulous compromise."<sup>85</sup> It is noteworthy that the Soviets' scruples had been wounded only because they had been excluded from the negotiations;<sup>86</sup> the actual provisions of the compromise on trade machinery, on the other hand, appear to have been satisfactory to Moscow. The fact that the developing countries had been able, for the first time in history, to create a major international agency which the Western powers had not wanted at all was doubtless keenly appreciated by the USSR, which had fought its own ITO battle for nearly a decade. Unlike many of the new and militant members of the "Seventy-Five," the Soviet Union was a veteran of conference politics and had long experienced Western intransigence on institutional matters. Indeed, the USSR may have been genuinely surprised that any real progress towards establishing permanent trade machinery had been made at the huge, unwieldy Geneva gathering.

Moscow attached particular significance to UNCTAD's standing committee, the Trade and Development Board, as a permanent forum for both formal and private discussions on

East-West economic relations.<sup>87</sup> While the creation of a new channel for expanding East-West trade fulfilled a long-standing Soviet objective, its importance may have been enhanced even during the Conference. Several East European states, in an effort to escape the confines of the Soviet bloc, apparently put out their own feelers for increased commerce with the West: Romania, Hungary and Bulgaria all were reported to have sought closer contact with GATT at Geneva, while Poland successfully concluded an agreement to participate in the Kennedy Round.<sup>88</sup> In fact, rumors even spread at UNCTAD-I that the USSR itself was planning to accede to the General Agreement if its ITO plan fell through.<sup>89</sup>

The convening of periodic trade and development Conferences elicited less enthusiasm in Moscow, possibly because the socialist bloc would be relegated to the minority position it holds in virtually all international assemblies. Nonetheless, the Conference received guarded Soviet praise as being "the embryo to the creation of an International Trade Organization, the development of which is only a matter of time...[but also] a matter involving a struggle which will probably not be easy." In broader terms, the institutionalization of UNCTAD was interpreted by Moscow as "the result of a new arrangement of political forces not as yet seen in any large international forum--a new political situation which has demonstrated so graphically the isolation of the

leading capitalist powers."<sup>90</sup>

At the same time, Moscow was aware that this "new political situation" had likewise contributed to the socialist bloc's own isolation at UNCTAD-I. Soviet commentators acknowledged that it was at Geneva that the developing countries first emerged as a group of their own with their own incipient organization:

The Conference on Trade and Development was probably the first big international forum at which the coalition of developing countries, named at the Conference as the "Group of 75," so distinctly revealed itself as a unit and as one of the determining political factors. We are not speaking of a formal "roll-call group" existing on paper, but of their active unity which found expression in the existence of a definite discipline uniting its members and leading organs in an effort to carry out a single policy at the Conference. Moreover, there is every reason to consider that one of the most significant results of Geneva is the definite formation of this group which will undoubtedly play from now on an increasing role in international forums and conferences.<sup>91</sup>

Thus, the conclusion seems justified that the background and proceedings of the institutional issue at Geneva, and particularly the emergence of the Group of Seventy-Five, tended to disillusion the USSR about the prospects of any genuine East-South partnership in the new trade organization. There is evidence to suggest that Moscow's eventual pragmatic reassessment of its political relations with the Third World, prompted partly by the events at UNCTAD-I and to a much greater extent by the change in the Soviet leadership in the same year, facilitated the placing of East-South economic

relations on a more stable and expanding basis.<sup>92</sup>

### The Institutional Framework of UNCTAD

UNCTAD was established as a permanent organ of the General Assembly. Thus, no formal new organization was set up. The idea of creating a full-fledged ITO, however, was never completely abandoned by some states. If it was a question of policy for the Group of Seventy-Five, it constituted a matter of principle for the Soviet bloc. Hence, a compromise formula was suggested by the Western powers that UNCTAD should consider the question of creating an ITO in due course. No deadline was set for this purpose, but the preamble of General Assembly Resolution 1995 (XIX) recognized that "there should be a further review of both the present and the proposed institutional arrangements in the light of the experience of their work and activities," and also noted "the widespread desire among the developing countries for a comprehensive trade organization."

Status and Membership of UNCTAD. The resolution did not specify the article of the Charter under the terms of which UNCTAD was established as an organ of the Assembly. The omission of any such reference was the result of the compromise agreement, but it should be noted that UN organs do not usually state in their official documents the Charter provisions which constitute the juridical basis of their decisions. By implication, UNCTAD was established under

Article 22 which relates to the setting up of subsidiary organs of the Assembly. Consequently, the new machinery was not subordinated to the Economic and Social Council, another concession from the West. Membership of UNCTAD is neither universal nor limited to UN members but, as with the case of the 1964 Conference, includes the members of the UN, UN specialized agencies, and the International Atomic Energy Commission.

The Conference. The Conference is the highest body of the organization; it is to be convened at intervals of not more than three years at dates and places determined by the General Assembly in light of recommendations by the Conference or the Trade and Development Board. With regard to the functions of the Conference, the resolution was essentially based on the draft of the developing countries, but some qualifications and limitations were added during the negotiations. UNCTAD was required "to promote international trade, especially with a view to accelerating economic development, particularly trade between countries at different stages of development, between developing countries, and between countries with different systems of economic and social organization, taking into account the functions performed by existing international organizations." This elaborate and complex formulation was the result of a difficult compromise based on the West's desire to keep intact the jurisdiction of GATT over trade relations

between developed market economy states. There is no mention of the Conference's "overall responsibility" in the trade field, as was demanded by the developing countries. Moreover, the Conference shall only "formulate"--rather than "establish"--principles and policies on trade and development and "make proposals" for putting them into effect.

On the other hand, the Western states' effort to make UNCTAD a forum for discussion only and maintain GATT and the UN Commission for International Commodity Trade as the exclusive instruments for real policy-making was toned down by the provision that the Conference shall "initiate action, where appropriate,...for the negotiation and adoption of multilateral legal instruments in the field of trade," albeit "with due regard to the adequacy of existing organizations and without duplication of their activities," another unequivocal reference to GATT. In general, the Conference was required "to be available as a centre for harmonizing the trade and related development policies of governments and regional economic groupings."

The Trade and Development Board. The title of the standing committee of the Conference was a genuine compromise between the controversial names "Council" and "Commission." The Board is a permanent organ of the Conference which, in addition to its own exclusive responsibilities, carries out all the functions within the competence of the Conference



during inter-sessional periods. The specific responsibilities of the Board are to ensure the continuity of UNCTAD's work, to initiate studies and reports on the field of trade and related problems of development, and to serve as a preparatory committee to the sessions of the Conference.

The Board is composed of neither fifty-two members as was demanded by the developing countries, nor forty as was demanded by the Western states, but fifty-five. These seats are to be allocated by the Conference according to the principles of both "equitable geographical distribution" and "the desirability of continuing representation for the principal trading states." It is prescribed that in electing members to the Board, the Conference shall observe a specified pattern of distribution of seats as follows: twenty-two from Group A: the Afro-Asian countries and Yugoslavia; eighteen from Group B: the Western European countries, the United States, Canada, Japan, Australia, New Zealand, and Cyprus; nine from Group C: the Latin American countries; and six from Group D: the socialist countries.

Rules of Procedure. The Board shall normally hold two sessions a year and under certain defined conditions may also be convened in special session. Each year the Board elects a President, ten Vice-Presidents, and a Rapporteur from among its members, all of whom constitute

the "Bureau" of the Board. An important innovation as compared with the practice of other UN bodies concerns the election of the Bureau according to a strict system of rotation among the four groups of countries on the basis of a seven-year cycle. The rules of the cycle stipulate that in any one year, of the twelve seats on the Bureau, four must be held by members of Group A; four by members of Group B; two by members of Group C; and two by members of Group D. In addition, no group can hold simultaneously the offices of President and Rapporteur, but in the case of Group A one such office may be assigned to a member from Africa and the other to a member of Asia.

The voting majorities required for the adoption of decisions are those which had been proposed by the developing countries in their revised draft: decisions of the Conference on matters of substance are taken by a two-thirds majority of the representatives present and voting, and on matters of procedure by a majority of the representatives present and voting; decisions of the Board and its Committees are taken by a simple majority of the representatives present and voting.

The underlying premise of the conciliation mechanism conceived at the Geneva Conference was that the new institution would be considering two categories of resolutions: those in which the developing countries would essentially

express their problems and the direction in which their solutions were to be sought; and those under which "specific action substantially affecting the economic and financial interests of particular countries" would be required. The conciliation machinery related only to the second category of resolutions--the adoption of specific measures--on the assumption that all the possibilities for securing agreement among the parties should be exhausted before the proposals reached the voting stage. "There is obviously no immediate practical purpose," stated the Secretary-General of the Conference, "in adopting recommendations by a simple majority of the developing countries but without the favorable votes of the developing countries, when the execution of those recommendations depends on their acceptance by the latter."<sup>93</sup> Hence, the importance of the conciliation mechanism as a means of promoting such agreement. This spirit of sensible "give and take," in fact, had been the essence of the eleventh-hour negotiations and compromises at Geneva.

An American representative at UNCTAD-I speculated that the main value of the conciliation procedure "may be less in its actual use than in the subtle way its mere existence influences member governments toward compromise rather than voting on disagreed proposals."<sup>94</sup> The strong stand taken by the Western powers on this issue served frank notice that

they did not intend to be intimidated by "voting-power politics." The conciliation mechanism stood as a symbol of this determination and drove home the lesson that what was needed, in the last analysis, was not votes but results. However, the atmosphere of controversy in which UNCTAD was created and the different positions assumed by the Western, developing, and socialist countries on the whole gamut of trade and development issues augured that it would be difficult for the new organization to produce any immediate, concrete results or obtain the consensus that is a prerequisite for substantive action.

NOTES TO CHAPTER III

<sup>1</sup>UN Documents E/CONF.46/PC/SR.1-22. The report of the first session of the Preparatory Committee is contained in Proceedings of the United Nations Conference on Trade and Development, vol. VIII (New York: United Nations, 1964), pp. 3-8. Further references to the eight-volume edition of UNCTAD-I documents and reports are cited as Proceedings, UNCTAD-I, vol. I, II, etc.

<sup>2</sup>The officers of the Preparatory Committee were Mr. A. Rosenstand Hansen (Denmark) Chairman; Mr. D.S. Joshi (India) First Vice-Chairman; Mr. L. Smid (Czechoslovakia) Second Vice-Chairman; and Mr. Chedly Ayari (Tunisia) Rapporteur.

<sup>3</sup>See the Soviet memorandum on the "Consideration of Agenda of the United Nations Conference on Trade and Development," UN Document E/CONF.46/PC/L.1/Rev.1.

<sup>4</sup>See the remarks of the American and Argentine representatives, UN Document E/CONF.46/PC/SR.7, pp. 4-7.

<sup>5</sup>For a critical discussion of Prebisch's theories on development, see: A.S. Friedeberg, The United Nations Conference on Trade and Development of 1964: The Theory of the Peripheral Economy at the Centre of International Political Discussions (Netherlands: Rotterdam University Press, 1969), chapters III and IV.

<sup>6</sup>UN Documents E/CONF.46/PC/SR.23-52. The report of the second session of the Preparatory Committee is contained in Proceedings, UNCTAD-I, vol. VIII, pp. 9-53.

<sup>7</sup>UN Documents E/CONF.46/PC/SC.4/SR.1-11. For the report of Sub-Committee IV, see: Proceedings, UNCTAD-I, vol. VIII, pp. 42-45.

<sup>8</sup>The report of the group of experts is contained in Proceedings, UNCTAD-I, vol. V, pp. 374-423.

<sup>9</sup>Ibid., p. 414.

<sup>10</sup>Ibid., pp. 417-422.

<sup>11</sup>UN Document E/CONF.46/PC/11.

<sup>12</sup>Janez Stanovnik, "Towards a New International Trade and Development Policy," Review of International Affairs (Belgrade), vol. XIV, nos. 320-321 (5-20 August 1963), pp. 20-22.

<sup>13</sup>See, for example, UN Document E/CONF.46/PC/SR.6, p. 6 in which the Soviet representative to the first session of the Preparatory Committee stated in part that "the socialist countries were...not proposing that the Conference should enter into detailed negotiations; they would be satisfied if it reached a general consensus on the conditions necessary to free trade from unnecessary restrictions. The rest they would leave to history."

<sup>14</sup>Dj. Jerkovic, "Great Undertaking of the Developing Countries," Review of International Affairs (Belgrade), vol. XIV, nos. 318-319 (5-20 July 1963), pp. 1-3, at 2.

<sup>15</sup>Subir Biswas, World Trade Conference (Calcutta: Sadhana Prakashani, 1964), p. 4.

<sup>16</sup>The "Joint Statement by Representatives of Developing Countries" is contained in Proceedings, UNCTAD-I, vol. VIII, pp. 44-45.

<sup>17</sup>UN, Economic and Social Council Resolution 963 (XXXVI).

<sup>18</sup>UN Document A/C.2/L.729 and A/5587.

<sup>19</sup>UN, General Assembly Resolution 1897 (XVIII).

<sup>20</sup>The Preparatory Committee held fifteen meetings during its third session as summarized in UN Documents E/CONF.46/PC/SR.56-67. For the report on the Committee's third session, see Proceedings, UNCTAD-I, vol. VIII, pp. 54-59.

<sup>21</sup>See: A. Okhotin and V. Yulin, "U.N. Conference on Trade and Development," Vneshnyaya Torgovlya /Foreign Trade/ (Moscow), no. 12 (1963), pp. 19-22.

<sup>22</sup>UN Document E/CONF.46/51.

<sup>23</sup>UN Document E/CONF.46/50.

<sup>24</sup>See, for example, Stefan C. Stolte, "The USSR and the World Trade Conference," Bulletin (Institute for the Study of the USSR), vol. XI, no. 10 (October 1964), pp. 17-23, at 20.

<sup>25</sup>The major Soviet doctrinal formulation concerning the impact of the Common Market on international economic cooperation was put forth by the conservative USSR Academy of Sciences in a set of thirty-two theses "Concerning Imperialist 'Integration' in Western Europe," Pravda, 26 August 1962, pp. 34, as contained in The Current Digest of the Soviet Press, vol. XIV, no. 34 (9 September 1962), pp. 9-16. The paper ended with a profession of support for the Soviet proposal for an ITO without any discriminatory groupings.

<sup>26</sup>B. Pinegin, "Two Systems: Economic Cooperation and Competition," International Affairs (Moscow), no. 3 (1963), pp. 26-31, at 30.

<sup>27</sup>See chapter II, note 68.

<sup>28</sup>B. Pinegin, "Unsolved Problems of World Trade," International Affairs (Moscow), no. 1 (January 1964), pp. 69-73.

<sup>29</sup>V. Yulin, "International Trade Organization," Ekonomicheskaya Gazeta /Economic Gazette/ (Moscow), no. 9 (29 February 1964), p. 31, as translated by the Joint Publications Research Service, no. 23, 989 (2 April 1964), pp. 25-28.

<sup>30</sup>Yu. Ogarev, "An International Trade Organization--An Urgent Demand," Mirovaya Ekonomika i Mezhdunarodnyye Otnosheniya /World Economy and International Relations/ (Moscow), no. 2 (1964), pp. 82-94, at 91.

<sup>31</sup>Ibid., pp. 93-94.

<sup>32</sup>See the sharp exchange between the French and the Soviet representatives at the 34th session of ECOSOC, UN Document E/AC.6/SR.328, p. 8.

<sup>33</sup>See, for example, the opening statements at the Geneva Conference by the representatives of Afghanistan and Ceylon, Proceedings, UNCTAD-I, vol. II, pp. 85 and 140.

<sup>34</sup>G.L. Goodwin, "The United Nations Conference on Trade and Development: Beginning of a New Era?," The Yearbook of World Affairs, 1965 (London: The London Institute of World Affairs, 1965), pp. 1-25, at 8-9.

<sup>35</sup>Concessions by the developed countries published long before the Conference might be taken for granted and encourage further demands by the developing countries.

<sup>36</sup>All of these preparatory resolutions and reports are contained in Proceedings, UNCTAD-I, vols. VI and VII.

<sup>37</sup>There are several general surveys of Western attitudes toward UNCTAD-I, including: Aaron Etra, "Time for a Change: The U.N. Conference on Trade and Development," Revue belge de droit international (Brussels), vol. 2, no. 1 (1966), pp. 50-67; Richard N. Gardner, "The United Nations Conference on Trade and Development," in Richard N. Gardner and Max F. Millikan (eds.), The Global Partnership: International Agencies and Economic Development (New York: Praeger, 1968), pp. 99-130; Branislav Gosovic, "UNCTAD: North-South Encounter," International Conciliation, no. 568 (May 1968); Reginald Green, "UNCTAD and After: Anatomy of a Failure," Journal of Modern African Studies, vol. 5, no. 2 (1967), pp. 243-267; and Paul O. Froehl, "The Geneva Proposals to Reform International Trade: 'A Clear Convergence of Responsibilities'?", George Washington Law Review, vol. 33, no. 5 (1965), pp. 1031-1066. For more detailed information on specific aspects of Western policy at the Geneva Conference, see Robert S. Walters, American and Soviet Aid: A Comparative Analysis (Pittsburgh: University of Pittsburgh Press, 1970), chapter 9; and Friedeberg, cited above at 5.

<sup>38</sup>Chief among these domestic pressure at UNCTAD-I was the emergence of "Goldwaterism" in the United States during the spring and summer of 1964, which pushed the Johnson Administration into a semi-isolationist stance as part of its Presidential campaign strategy. See: Irving Louis Horowitz, Three Worlds of Development: The Theory and Practice of International Stratification (New York: Oxford University Press, 1966), p. 187. Soviet representatives at Geneva remarked on this same strand in



American policy in Val Zorin and I. Ivanov, "Geneva: Some Lessons and Conclusions," Mirovaya Ekonomika i Mezhdunarodnyye Otnosheniya /World Economy and International Relations/ (Moscow), no. 8 (1964), pp. 75-84, at 76.

<sup>39</sup>The OECD Observer (Paris: Organization for Economic Cooperation and Development), December 1963, p. 5.

<sup>40</sup>For particulars on the organization arrangements of the Conference, see: Proceedings, UNCTAD-I, vol. I, pp. 101-112.

<sup>41</sup>Friedeberg, cited above at 5, p. 89.

<sup>42</sup>Proceedings, UNCTAD-I, vol. II, pp. 5-64.

<sup>43</sup>These terms are used by Goodwin, cited above at 34, pp. 9-10.

<sup>44</sup>In his preparatory report to the Second UNCTAD Conference in 1968, Dr. Prebisch estimated that the trade gap of the developing countries would amount in 1975 to \$24 billion. Towards a Global Strategy of Development, Report of the Secretary-General of the United Nations Conference on Trade and Development (New York: United Nations, 1968), UN Document TD/3/Rev.1, pp. 15-16.

<sup>45</sup>Towards a New Trade Policy for Development, cited above at 42, p. 12. Emphasis mine.

<sup>46</sup>Cf. Proehl, cited above at 37, pp. 1056-1058.

<sup>47</sup>Towards a New Trade Policy for Development, cited above at 42, p. 49. Emphasis mine.

<sup>48</sup>Another report on GATT prepared by the UNCTAD secretariat concluded that there was no dispute about the need for a rule of law in world trade, but added:

"The question is: What should be the character of that law? Should it be a law based on the presumption that the world is essentially homogeneous, being composed of countries of equal strength and comparable levels of economic development, a law

founded, therefore, on the principles of reciprocity and non-discrimination? Or should it be a law that recognizes diversity of levels of economic development and differences in economic and social systems?

"The Developing Countries in GATT," Proceedings, UNCTAD-I, vol. V, pp. 432-469, at 468.

<sup>49</sup>There are, of course, many economists who share Dr. Prebisch's views or take a middle position. See: Gunnar Myrdal, An International Economy (New York: Harper and Brothers, 1956); and Andrew Shonfield, The Attack on World Poverty (New York: Random House, 1962).

<sup>50</sup>Dr. Bela Belassa reached alternative estimates in the neighborhood of \$9.4-\$12.0 billion. Trade Prospects for Developing Countries (Homewood, Illinois: Richard D. Irwin, Inc., 1964), pp. 104-105.

<sup>51</sup>For a detailed survey of critical analyses of the theory of the peripheral economy, see: Friedeberg, cited above at 5, chapters III and IV. An appraisal of Dr. Prebisch's influence on the economic ideology of UNCTAD may be found in Harry G. Johnson, Economic Policies Toward Less Developed Countries (Washington, D.C.: Brookings Institution, 1967).

<sup>52</sup>G. Griffith Johnson, "A Perspective on the UNCTAD," Department of State Bulletin, vol. 50, no. 1290 (16 March 1964), pp. 410-415, at 414; and Isaiah Frank, "Aid, Trade and Economic Development: Issues Before the U.N. Conference," Foreign Affairs, vol. 42, no. 2 (January 1964), pp. 210-226, at 218-219.

<sup>53</sup>Towards a New Trade Policy for Development, cited above at 42, Introduction.

<sup>54</sup>Goodwin, cited above at 34, p. 10.

<sup>55</sup>An Indian scholar has aptly expressed this point of view:

"It may be that thirty years later Dr. Prebisch will be seen as one of the major prophets of the new world order, and this report as one of its manifestoes."

Dharma Kumar, "U.N. Conference on Trade and Development," India Quarterly (New Delhi), vol. 21, no. 3 (July/September 1965), pp. 311-315, at 315.

<sup>56</sup>UN Document E/CONF.46/50.

<sup>57</sup>UN Document E/CONF.46/C.4/SR.16.

<sup>58</sup>UN Document E/CONF.46/C.4/SR.7.

<sup>59</sup>UN Document E/CONF.46/C.4/SR.9.

<sup>60</sup>UN Document E/CONF.46/C.4/SR.16. Emphasis mine.

<sup>61</sup>UN Document E/CONF.46/C.4/SR.5.

<sup>62</sup>As a consequence, no real records on the contents and details of institutional discussions at UNCTAD-I exist. A few secondary sources provide some good insights, notably Diego Cordovez, "The Making of UNCTAD," Journal of World Trade Law, vol. I, no. 3 (May/June 1967), pp. 243-328. Unless otherwise identified, the material for this section comes from the official Report of the Fourth Committee, Proceedings, UNCTAD-I, vol. I, pp. 230-293.

<sup>63</sup>UN Document E/CONF.46/C.4/L.3.

<sup>64</sup>UN Document E/CONF.46/C.4/SR.20.

<sup>65</sup>UN Document E/CONF.46/C.4/L.5 and Rev.1.

<sup>66</sup>Cordovez, cited above at 62, p. 292; Gardner, cited above at 37, pp. 104-105; Sidney Weintraub, "After the U.N. Trade Conference: Lessons and Portents," Foreign Affairs, vol. 43, no. 1 (October 1964), pp. 37-50, at 42.

<sup>67</sup>On this point see Chapter IV.

<sup>68</sup>UN Document E/CONF.46/C.4/L.9.

<sup>69</sup>According to the United States representative, these principal trading states would include Japan and the USSR. UN Document E/CONF.46/C.4/SR.22.

<sup>70</sup>This and the following statements are contained in UN Documents E/CONF.46/C.4/SR.22-24.

<sup>71</sup>UNCTAD Press Release, No. 3, 12 May 1964, as quoted in Friedeberg, cited above at 5, p. 98.

<sup>72</sup>UN Document E/CONF.46/C.4/L.12.

<sup>73</sup>UN Document E/CONF.46/C.4/L.9/Rev.1.

<sup>74</sup>UN Document E/CONF.46/50/Rev.1.

<sup>75</sup>The similarities between the Havana Conference of 1947-1948 and the 1964 Geneva Conference with regard to negotiations on constitutional questions are striking. See the following accounts of part of the Havana debate: William Adams Brown, Jr., The United States and the Restoration of World Trade (Washington, D.C.: Brookings Institution, 1950), pp. 145-146; and Clair Wilcox, A Charter for World Trade (New York: Macmillan Company, 1949), p. 47.

<sup>76</sup>UN Document E/CONF.46/C.4/L.18.

<sup>77</sup>UN Document E/CONF.46/C.4/L.19.

<sup>78</sup>The full text of the approved recommendation is contained in an annex to the Report of the Fourth Committee, Proceedings, UNCTAD-I, vol. I, pp. 240-243.

<sup>79</sup>UN Document E/CONF.46/C.4/SR.36.

<sup>80</sup>Cordovez, cited above at 62, p. 304.

<sup>81</sup>That final agreement was reached on the basis of the acceptance of a conciliation mechanism indicated that certain concepts and methods which had been adopted at Havana in 1948 were still considered as being adequate methods of promoting international trade cooperation in 1964. See the description of the "system of consultation" incorporated into the Havana Charter in Brown, cited above at 75, loc cit.

<sup>82</sup>UN Document E/CONF.46/L.22.

<sup>83</sup>Proposals Designed to Establish a Process of Conciliation Within the United Nations Conference on Trade and Development: Report of the Special Committee, UN Document A/5749.

<sup>84</sup>UN, General Assembly Resolution 1995 (XIX).

<sup>85</sup>UNCTAD Press Release, 4 June 1964, as quoted in Richard Gardner, "GATT and the United Nations Conference on Trade and Development," International Organization, vol. 18, no. 4 (Autumn 1964), pp. 685-704, at 699.

<sup>86</sup>See the interview with N.S. Patolichev, Soviet Minister of Foreign Trade and head of the USSR's delegation to UNCTAD-I, Pravda, 14 June 1964, p. 5, as contained in The Current Digest of the Soviet Press, vol. XVI, no. 24 (1964), pp. 24-25.

<sup>87</sup>Val Zorin and I. Ivanov, "Geneva: Some Lessons and Conclusions," Mirovaya Ekonomika i Mezhdunarodnyye Otnosheniya / World Economy and International Relations (Moscow), no. 8 (1964), pp. 75-84, at 80.

<sup>88</sup>"Current Developments," East Europe, vol. 13, no. 7 (July 1964), p. 47.

<sup>89</sup>UN Document E/CONF.46/C.4/SR.16.

<sup>90</sup>Zorin and Ivanov, cited above at 87, loc. cit.

<sup>91</sup>Ibid., p. 77.

<sup>92</sup>This subject is discussed in Chapter VI.

<sup>93</sup>The Significance of the United Nations Conference on Trade and Development, Report to the Secretary-General of the United Nations by the Secretary-General of the Conference, Proceedings, UNCTAD-I, vol. II, pp. 549-554, at 553.

<sup>94</sup>Gardner, cited above at 37, p. 119.

## CHAPTER IV

### THE ECONOMIC ISSUES

At the first United Nations Conference on Trade and Development twelve weeks of intensive discussions and negotiations between delegates representing more than 120 countries resulted in a series of nearly sixty comprehensive recommendations, ranging over a broad spectrum of international trade and development problems. Great economic issues which cut at the heart of national interests and existing institutional arrangements and practices were raised but not resolved. Instead, they were consigned for study and consideration to the elaborate continuing machinery of UNCTAD--the Trade and Development Board and its Committees --as well as to various previously established agencies in the field. The Second Trade and Development Conference, held at New Delhi in early 1968, was presented as an occasion to go forward and make significant headway toward agreement on a number of specific problems. The outcome of the Second Session fell far short of this goal. UNCTAD-III convened at Santiago, Chile in the spring of 1972 with relatively little fanfare and was not only a sequel but, in many respects, also a repetition of the New Delhi performance.

Although UNCTAD's terms of reference "cover the waterfront," the main attention of the organization has related to commodity problems, compensatory finance, and trade in manufactures and semi-manufactures. This chapter deals with these three subjects<sup>1</sup> and together with chapter VI, explores

a fourth area of growing international interest particularly since the 1968 Conference: the progress and prospects of economic cooperation between socialist and developing countries.

### International Commodity Problems<sup>2</sup>

The developing countries remain heavily dependent on commodity exports--crude foodstuffs, raw materials and fuels--to meet their growing import needs involved in the process of industrialization and diversification. With the notable exception of oil, gas and other energy sources, the general outlook for commodity exports is unfavorable, not only because of the tendency of commodity prices to deteriorate in relation to prices of manufactures goods, but also because of the lagging rate of growth in export volume. Unless new policy measures in the field of trade and finance provide additional resources for the developing countries and bring about a measure of stabilization in their export earnings, it will be exceedingly difficult for these countries to finance a satisfactory rate of economic growth for the future.

In the First Committee's discussion of commodity problems at UNCTAD-I the developing countries were unanimous in calling for conditions that would enable their primary products to flow freely into the markets of the industrialized countries. The claims of the developing countries were expressed in a comprehensive "Program of Measures and Action" for speedy

elimination of trade barriers within specified time limits.<sup>3</sup> The Program originally had been submitted to the Committee by a group of thirty-nine African, Asian and Latin American countries.<sup>4</sup> At that stage it had been explicitly demanded that existing preferential tariffs discriminating between developing countries be abolished. This provision concerned the trade preferences resulting from Commonwealth links and Common Market association, which were particularly resented by the Latin American countries and also by the United States who considered them a violation of the most-favored-nation principle.<sup>5</sup> The eighteen African countries associated with the Common Market, however, would only adhere to the Program of Measures after the paragraphs dealing with this question were amended so as to include a provision that the said preferences "should be abolished *pari passu* with the effective application of international measures providing at least equivalent advantages" to the developing countries concerned.<sup>6</sup> The revised Program was then sponsored by sixty-one developing countries and supported by several others.

The Program of Measures and Action, which may be considered an extreme version of the 1963 GATT Program of Action, aimed both at eliminating existing obstacles to trade in primary products of developing countries and at restricting the tendency for the industrialized countries' share of the market of competing products to increase at the expense of the developing countries. It recommended that the industrialized countries should refrain from erecting new tariff or



non-tariff barriers or increasing existing ones against the export trade in primary commodities of the developing countries. It further recommended positive measures for the removal of existing tariffs and internal fiscal charges as well as quantitative restrictions on primary products from developing countries by 31 December 1965 at the latest.

In relation to action to be taken by the socialist countries, the developing countries' Program centered on the need for expanding access to their markets through quantitative import targets, and the adoption of price and import policies which would ensure increasing opportunities for the exports of developing countries.

The USSR insisted that the slow growth in commodity exports was not a problem in socialist trade with the developing countries. On the contrary, the demand by the socialist economies for primary products from the developing countries had steadily increased during the 1955-1962 period at an average annual rate of 23 per cent. The Soviet representative also announced that further quantitative increases in the USSR's imports of particular products from the developing countries would be forthcoming. At the same time he drew attention to the fact that the possibilities of expanding East-South trade could be used to a fuller extent if the developing countries increased their imports from the socialist bloc.<sup>7</sup>

The Soviet delegate stressed during the First Committee's

discussion that the world capitalist market was the logical focus for concerted action on the commodity front. The deterioration in the terms of trade facing primary exports and the wide fluctuations in their prices were seen to be a characteristic unique to the Western economic system. The USSR considered that agreements to stabilize commodity trade and to eliminate the harmful effects of capitalist market forces should be concluded on a broad range of primary products: cocoa; vegetable oils, cotton, citrus fruits, copper and petroleum. Such agreements, however, would not involve the socialist countries. For its part, the Soviet Union viewed long-term bilateral agreements for specified quotas of goods as "a real contribution to the stabilization of commodity markets and prices."<sup>8</sup>

Soviet claims contrasting the all-round stabilizing effect of bilateral contracts with the deleterious nature of capitalist markets raises an interesting question: what kind of terms of trade does the USSR have in mind? Soviet Minister of Trade N. S. Patolichev did not touch on this matter at UNCTAD-I, most likely because the whole issue of "just" prices in foreign trade had long been a source of controversy within the socialist bloc. Soviet correspondents who attended the Geneva Conference envisaged that the level of prices in East-South trade agreements "would be economically justified and would be higher than the existing ones." In the same breath, however, they insisted that the USSR could have no truck with proposals, like the French idea of organizing

commodity markets, which amounted to "aid through pricing" effected "at the expense of lowering the living standard of the population of the developed countries."<sup>9</sup>

Thus, whatever readiness there may have been on the Soviet side to see some increase in the prices paid for the commodity exports of the developing countries, there was no intention of putting prices on any radically different basis at the expense of the USSR and other members of the bloc. The point was repeated in a Pravda editorial which dismissed the idea of "the establishment of some kind of levelling" in international economic relations.<sup>10</sup>

The Western states generally rejected the Program of Measures, though for different reasons. These states were split by an Anglo-American-French controversy about the question of whether emphasis should be placed on the removal of trade barriers along the lines of the 1963 GATT Program, or on the organization of markets by means of international commodity agreements as proposed by France. One group of states, while agreeing in principle with the need for eliminating trade restrictions, found the developing countries' Program over-ambitious, both as regards its scope and time limits. Among these were the United States which, in anticipation of the Kennedy Round and probably for electoral reasons,<sup>11</sup> did not wish to commit itself beyond its GATT obligations;<sup>12</sup> and the United Kingdom which advocated extending existing tariff preferences to all developing

countries by means of a "Ten Key Point Program" basically similar to the GATT Program.<sup>13</sup> France, on the other hand, firmly opposed the idea of relying on free market forces as expressed by the developing countries' demand for the removal of trade barriers and insisted on deliberate efforts to organize international trade to ensure "remunerative, equitable and stable prices" for primary products through "arrangements already tried out on the regional, bilateral, or even national level," apparently a reference to the methods applied by France with her former colonies.<sup>14</sup>

This controversy among the Western countries was a repetition of the "basic difference in approach to the entire problem of the commodity trade of developing countries" between the Anglo-American countries and the Common Market countries during the GATT ministerial meeting of May, 1963.<sup>15</sup> At UNCTAD-I, however, the Common Market members failed to present a united front. Only Belgium sympathized with the French plan, whereas Italy, Germany, and the Netherlands generally supported the British program.

These conflicting views within the Western group overshadowed the discussion on commodity problems and it appeared impossible to reach a general agreement in the First Committee. The major recommendation in this field adopted "without dissent"<sup>16</sup> by the plenary session of the Conference was actually the result of last minute negotiations in informal conciliation groups outside the First Committee.

This recommendation, entitled "International commodity arrangements and removal of obstacles and expansion of trade," was very general in nature and reflected a great variety of compromises, both among the Western countries and between the Western and the developing countries. In the "Introduction" to the recommendation, the Anglo-American and the French proposals were placed on an equal footing: "measures for liberalization of access to markets and measures for commodity agreements should be simultaneously undertaken as separate but complementary measures."

Part I of the recommendation, called "International Commodity Arrangements," was strongly influenced by the developing countries' Program. It included a survey of all possible types of commodity agreements and a catalogue of techniques which might be applied under such arrangements. However, no indication was given as to the relative merits, either in general or for any particular commodity, of the types of techniques listed. It recommended the setting up of a new Commission on Commodity Arrangements and Policies, which would coordinate the activities of all international bodies involved in the commodity field and draft a General Agreement on Commodity Arrangements, including objectives and principles. The second part of the recommendation, concerning action to be taken by the developed market economy countries and the socialist countries to expand commodity trade, boiled down to a moderate version of the

developing countries' Program. In some respects, such as escape clauses and target dates, it was actually weaker than the 1963 GATT Program.

Taking the history and contents of the recommendation as a whole, and the political desire of all parties to save the Conference from failure, the recommendation seemed to reflect a temporary truce between various schools of thought rather than any real agreement on international commodity policies for development.

### Compensatory Finance<sup>17</sup>

As we have seen, the First Committee considered two groups of proposals advocated at UNCTAD-I to counteract the structural weaknesses of international commodity markets. Both groups of proposals--commodity agreements and removal of obstacles to trade--may be qualified as trade measures. A third group examined mainly in the Third Committee, complementary to the former two groups but of a fiscal nature, is called compensatory finance.

In the 1950's, at a time when the trade earnings of the developing countries had become sluggish, the idea became current within some international economic circles that additional financial resources should be made available to those countries experiencing fluctuations in their foreign exchange receipts from the export of primary commodities. The rationale was that economic development required planning, planning required an expectation of relatively constant

export earnings, and that recourse to an international facility for compensatory finance, tied to a shortfall in anticipated earnings, would simply be an indirect form of straight financial foreign aid.

Beginning in 1960 with the first United Nations Development Decade and continuing to the present, the idea and the practice of compensatory finance have gained significant headway, largely through prodding by UNCTAD. A principal reason for the progress in this area is that compensatory finance, like the more traditional forms of direct loans and grants, does not interfere with the normal market forces and thus does not carry with it side effects which may be harmful.

Hence, UNCTAD discussions on compensatory finance should be seen as part of a chain of international debate on the subject which has been going on for roughly two decades and which had already resulted in various schemes of compensatory finance before the Geneva Conference was convened. One such scheme was the Posthuma Plan unanimously advocated by a group of experts appointed by the UN Secretary-General under General Assembly Resolution 1423 (XIV).<sup>18</sup> In their report on International Compensation for Fluctuations in Commodity Trade, the UN experts took the view that compensatory finance "is not an alternative to direct measures for the stabilization of primary commodity markets, but rather a supplementary form of action."<sup>19</sup> After having examined the

access which at the time developing countries had to the resources of the International Monetary Fund, the experts stressed that the Fund should liberalize its policy on compensatory finance for commodity exports. At the same time they expressed serious doubt whether the Fund's activities, present or likely, would offer a complete answer to the need for stabilizing the export trade of primary-producing countries. The Posthuma Report therefore proposed that the enlarged facility of the Fund should be supplemented by the creation of a separate "Development Insurance Fund" (DIF) to provide a form of compensatory finance to ensure protection for the developing countries against setbacks in their growth caused by large fluctuations in world commodity prices.

The DIF plan aroused widespread interest and, though it was never put into effect, served as an impetus for establishing the compensatory finance facility of the International Monetary Fund, which remains the only such facility in force. The IMF did not fail to note that the Posthuma Report indicated that the assistance hitherto provided by the Fund was considered "either insufficient in character, or inadequate in amount, to deal with the payment problems that rise from fluctuating exports of primary-producing countries."<sup>20</sup> Consequently, in February 1963 the Fund introduced a special system of drawing rights designed to compensate for a temporary shortfall in the export



receipts of developing countries.

The Fund's compensatory finance facility is basically similar to that envisaged in the DIF plan in that both would provide short-term assistance aimed at meeting the need of developing countries for greater certainty and adequate growth of export earnings from primary commodities. Yet important differences exist between the two schemes. Under the DIF plan compensation would be automatically granted on the basis of a statistical formula only, whereas under the Fund's facility much depends on the discretion of the agency. A country which the IMF considered to be experiencing a long-term decline may not be eligible for assistance; the same applies if the shortfall, even of a short-term nature, is due to domestic inflation of adverse national policies. Also, a member must satisfy the IMF that it is ready to cooperate with it in finding a solution to its payments difficulties.<sup>21</sup> Next, the Fund required drawings to be repaid within a three-to-five year period; under the DIF plan, on the other hand, compensation could take the form of either a loan or a contingent grant. Third, the DIF plan provided for compensation to be calculated as a percentage of the actual shortfall, while drawings under the Fund's special facility would normally not exceed 25 per cent of the member's quota, an amount which may not at all be related to the magnitude of the shortfall experienced. As the developing countries have low quotas in relation to their risk of balance-of-payments difficulties, the Fund's facility

is rather unsatisfactory from their point of view.<sup>22</sup> Finally, financing a DIF scheme would require initial capital subscriptions as well as annual premium payments, whereas the Fund's facility does not require additional resources from any of its members.

On balance it would seem that realization of the DIF plan would ensure the developing countries of quick financial aid whenever fluctuations occurred in their export proceeds from commodity trade. Nevertheless, there are some important practical considerations in favor of the Fund's compensatory finance facility: it is already in operation and, because it does not require additional resources, it is less likely to cause a reduction in other forms of aid.<sup>23</sup>

At the Geneva Conference much less attention was paid to the desirability of the DIF scheme than might be expected on its merits. One reason for this relative neglect was that Secretary-General Prebisch's preparatory report to the Conference put emphasis on a different, much more ambitious kind of compensatory finance scheme. The Prebisch version of the need for compensatory finance--like that for commodity agreements--was closely linked to the deterioration in the terms of trade, which was said not only to have seriously impaired the developing countries' capacity to import capital goods, but also to have offset the positive effects of the international resources made available to them.<sup>24</sup> It was therefore held that developing

countries should be compensated for losses from commodity exports by supplementary resources, the fundamental aim being "to maintain the total purchasing power of the external resources accruing to developing countries for losses from declining terms of trade." Proposals dealing with the short-term aspect of the problem--like that for a development insurance fund--were dismissed by Dr. Prebisch because "they do not go to the heart of the long-term problem." Moreover, the supplementary resources to be provided would constitute merely a restitution of the income which, according to the peripheral theory, is transferred abroad by the developing countries. Hence, whereas the DIF plan and the International Monetary Fund's compensatory finance facility may be classified as providing short-term assistance based on the pragmatic needs of countries experiencing balance-of-payments problems, the Prebisch Report envisaged a more permanent compensatory scheme based on the argument of unjust terms of trade.

Unlike other major subjects considered at UNCTAD, compensatory finance was discussed in two of the main Committees. The general aspects of the problem were debated in the First Committee but no consensus of opinion could be reached. It was therefore decided to transmit a document reflecting the divergent views to the Third Committee which originally was to deal with technical and institutional aspects of compensatory finance only. The document revealed

that "numerous delegations agreed that even if obstacles to trade were removed, market access improved, and a measure of stabilization achieved through commodity agreements," there would still be "a need for both short-term and long-term compensatory finance to cope with a serious residual problem of fluctuations in export earnings and deterioration in the terms of trade of developing countries."<sup>25</sup> Similarly, "numerous delegations" felt that in view of "the inadequacy of the special facilities provided by the International Monetary Fund to solve the short-term problem," new compensatory finance arrangements were required "based on the Development Insurance Fund scheme proposed by the United Nations group of experts." As far as long-term balance-of-payments difficulties were concerned, these delegations recommended that consideration be given to various "ways and means, including the scheme suggested by the Secretary-General of the Conference," i.e., the Prebisch proposal for compensating long-term movements in the terms of trade.

The document further revealed that the most extreme compensatory finance scheme was presented by Ecuador. This country made a series of demands which were obviously inspired by the Prebisch Report. These demands included: that compensatory finance should cover both deterioration in the terms of trade and temporary shortfalls in export earnings; that it should lead to non-reimbursable global transfers of income from developed to less developed

countries; that it should be as automatic as possible, universal and compulsory; and, finally, that it should not be considered a form of international aid and hence should not be established to the detriment of the general level of aid.<sup>26</sup>

Another Latin American country, Mexico, put forth a more moderate proposal. Mexico welcomed the IMF's compensatory finance facility and suggested modifying it in several respects, including an increase in the amount allocated by the Fund to compensatory finance from 25 per cent to 50 per cent of a member's quota.<sup>27</sup> Neither the demands of Ecuador nor the proposal of Mexico elicited a warm response from the industrialized countries.

The most reluctant countries as regards an extension of compensatory finance in whatever form were the United States and the Soviet Union, though for different reasons. The American approach to the problem of short-term declines in export earnings was to lay emphasis on the important role of the IMF in this field. Concerning long-term balance-of-payments difficulties, the United States held that no decision could be taken as to whether compensatory finance was a desirable mechanism until the various proposals had been studied thoroughly "in relation to other possible financial approaches."<sup>28</sup> This reaction indicated that the United States, contrary to most developing countries, was not prepared to consider compensatory finance as something

completely separate from other financial aid.

The response of the Soviet Union, on the other hand, made the American position look enthusiastic by comparison. The USSR argued that fluctuations in the developing countries' export earnings and deterioration in their terms of trade were caused solely by the workings of the capitalist economic system and the policies of monopolies. East-South trade was held to be free of such trends and policies, so accordingly, "plans to pay compensation had no bearing on the socialist countries."<sup>29</sup> Thus, as regards contributions for compensatory finance, the Soviets were not in favor of the "universality" they usually pursued in inter-national economic relations.

When compensatory finance was considered in the Third Committee, discussion centered on the long-term aspects of the problem. Only one proposal, by Mexico, was submitted relating to short-term compensatory finance, and this suggested revising the Fund's facility. The DIF scheme was neglected, partly because the developing countries realized that an extension of the IMF's facility would meet fewer difficulties than any attempt to set up a completely new scheme for long-term compensatory finance.<sup>30</sup> In addition, it was evident that the developing countries thought it more worthwhile to aim at establishing machinery for long-term compensatory finance, preferably along the lines of the Prebisch Report.

The aspirations of the developing countries were expressed in three separate proposals. The first of these, submitted by eight Latin American and Asian countries, related to short-term compensatory finance. This recommendation was quite moderate and resembled the suggestions of Mexico in the First Committee. Specifically, it proposed for study a revision of the IMF's facility which would cover increasing the allocation for compensatory finance from 25 per cent to 50 per cent of a member's quota; ensuring that a compensatory drawing would in no way prejudice a member's ability to make an ordinary drawing; and lengthening the the period of compensatory credit so as to accommodate longer-term declines.<sup>31</sup>

The second recommendation was made by Ghana. It envisaged the setting up of machinery for the compensatory financing of the long-term deterioration in the terms of trade of developing countries, taking into account the effect of the loss of external purchasing power on planned development.<sup>32</sup>

The third proposal, put forth by six Latin American countries, reflected the extreme demands of Ecuador in the First Committee. This proposal emphasized the need for automatic, compulsory, and universal compensation for both deterioration in the terms of trade and decreases in export earnings of developing countries through outright grants. The sponsors stressed in particular that compensation would

represent no more than "a restoration of the gains made collectively by developed countries" and should therefore be treated "separate from and additional to other financial aid."<sup>33</sup>

The Soviet Union acknowledged the need for compensatory finance but categorically refused to contribute to any such scheme on the ground that the moral and material responsibility for the economic distress of the developing countries was borne by the Western powers alone.<sup>34</sup> As with so many other issues at UNCTAD, the USSR supported the developing countries' proposals for a program from which it had exempted itself.

Contrary to the developing countries, the Western states generally took the view that compensatory finance could not be isolated from, and should be considered in the context of, financial aid. They insisted that they were unable to subscribe to any obligation to restore alleged gains from improvements in their own terms of trade.<sup>35</sup> Beyond this, the Western group was thoroughly divided.

This division of opinion was actually an extension of the controversy between the Common Market countries who favored "organizing" commodity markets and the Anglo-American countries who favored "free access" to markets. Consequently, France took an outspoken negative attitude toward long-term compensatory finance, insisting that any such arrangement was essentially palliative and that priority should be given "to more fundamental measures for improving and stabilizing



the prices of primary products through the organization of markets."<sup>36</sup>

Great Britain, in conformity with its Ten Key Point Program, together with Sweden took the initiative for the Western recommendation on long-term compensatory financing. The British-Swedish proposal, entitled "Supplementary financial measures,"<sup>37</sup> invited the World Bank to endeavor to work out a scheme for dealing with problems arising from adverse movements in export proceeds which could not adequately be dealt with by short-term balance-of-payments support. Normally, the scheme would be applicable after a developing country had taken recourse to the IMF's short-term finance facility and sufficient time had elapsed to make a full assessment of the nature and implications of the problems involved. A shortfall from some level of "reasonable expectations" would constitute a prima facie case for assistance. Once such a case had been established, the International Development Association was to determine the scale of assistance required in order to avoid the disruption of development programs.<sup>38</sup>

Several developing countries, while stressing the need for more far-reaching arrangements, welcomed the British-Swedish initiative as a "constructive" and "practical expression of the goodwill of the developed countries."<sup>39</sup> Compared to the long-term compensatory schemes advocated by the developing countries, the British-Swedish proposal had two

striking merits. First, it was based on the pragmatic need of providing assistance to countries experiencing a shortfall of export proceeds, rather than on the controversial argument of compensating for unjust terms of trade. Second, it did not provide automatic compensation and allocated a maximum of discretion to the administering agency. A novel feature was that compensatory finance was limited to cases of a shortfall from "reasonable expectations." This notion was likely to invite all sorts of interpretative quarrels between the administering agency and the country applying for assistance. Nevertheless, the change in emphasis from the past to the future, as expressed in the measuring of shortfalls by comparing actual performance with forecasts instead of with past trends, seemed an improvement from the standpoint of development planning.

In the end, the UNCTAD debate on compensatory finance resulted in a compromise consisting of two recommendations, adopted first by the Third Committee and later by the Conference in plenary, which were included in the Final Act as Annexes A.IV.17 and A.IV.18. Under the first of these recommendations, entitled "Study of measures related to the compensatory credit system of the International Monetary Fund," member countries of the IMF were asked to study a number of measures which were included in the relevant proposal of the developing countries to modify and expand the Fund's facility for compensatory finance. The second

recommendation, called "Supplementary financial measures," dealt with long-term compensatory finance. In its first part, the World Bank was invited to study the feasibility of a scheme along the lines of the British-Swedish proposal and, if found appropriate, to work out such a scheme. In its second part, UNCTAD was requested to study and organize further discussions on the "concepts and principles for financing put forward by the delegations of the developing countries at the Conference."

The conclusion may be drawn that, as with commodity problems, the Conference did not reach general agreement on the basic issues of compensatory finance. Although faced with two different notions of financing for development, the developing countries claimed both and the Conference, apparently in a pragmatic mood, made no choice. The requests for further studies may be considered a political decision to adjourn the debate until consensus could be achieved on matters of substance.

#### Trade in Manufactures and Semi-Manufactures<sup>40</sup>

Partly because trade prospects for many primary commodities seemed discouraging, partly because more foreign aid is hard to come by, the less developed countries have increasingly turned to exploring the possibilities for an expansion in their exports of manufactures and semi-manufactures. Diversification into manufacturing would help them finance an adequate rate of economic growth while

moderating the sharp fluctuations to which commodity trade is vulnerable. Even aside from foreign exchange considerations, the developing countries regard the growth of manufacturing as essential in the modernization process because of its "linkage" effect in inducing investment in related sectors of the economy, and probably for a number of other reasons not necessarily sensible in economic terms.

During the earlier postwar years efforts by the developing countries to diversify their economies tended to concentrate heavily on the establishment of highly protected and inefficient import-substituting industries which lacked competitive ability. As a result, the actual pattern of developing-country exports has been quite unsatisfactory. By the turn of the 1960's decade the total exports of manufactures and semi-manufactures from developing countries was \$2.61 billion a year, only 4 per cent of total world exports in this category. Moreover, the bulk of these exports were supplied by a very small number of countries--Hong Kong, India, Mexico, Pakistan, and Taiwan--and the range of competitive products was limited mainly to textiles and light industry.<sup>41</sup>

Efforts to broaden and expand the developing countries' exports have been obstructed by two roadblocks: restrictions in the markets of the developed countries, and questionable policies in the developing countries themselves. In the former category are various tariff and non-tariff barriers

which typically increase with the degree of processing of raw materials; and quota controls on certain important manufactures in which some developing countries have a comparative advantage, notably textiles. The latter category of unsound domestic policies for development includes such regularly occurring evils as excessive import-substitution schemes, inflationary taxes and overvalued exchange rates which offer a sure way for countries to price themselves out of world markets.

For successful developing-country manufacturing and marketing, measures must be applied to both types of obstacles. Domestic policies in less developed countries should be reoriented to provide a more favorable industrial climate, and external trade barriers should be eliminated to provide greater access for exports. Yet it was in the nature of UNCTAD to lay emphasis only on the second category of measures. To the chagrin of Western statesmen, the need for a sound infrastructure and for acquiring the technical and managerial know-how which are prerequisites to the diversification of the developing countries' economies received relatively little attention at the Geneva Conference.<sup>42</sup>

It is noteworthy that in the French "Memorandum" submitted to UNCTAD-I it was expected that various measures to be proposed at the Conference would be incompatible. It was recommended that after careful study the Conference should make a choice between certain groups of coherent and

complementary measures. An example of the incompatibilities which the French had in mind was a demand calling for the abolition of duties on a particular product together with a demand for a preferential tariff on the same product.<sup>43</sup>

The French warning was not superfluous. Certain proposals considered in the Second Committee dealt with such incompatible measures as mentioned in the French "Memorandum." In these proposals it was recommended that the developed countries should both remove trade barriers to the import of manufactured goods produced both by the developing countries and by other developed countries and, at the same time, introduce some sort of preferential tariff system in favor of the developing countries' manufactures. The fundamental difference between the two groups of proposals is that, whereas measures attacking trade obstacles aim at the introduction of a new discrimination in international trade. The elimination of trade barriers would give both developing countries and developed countries equal access to the markets of the latter. Tariff preferences in favor of the developing countries, through violation of the most-favored-nation principle, would give them a privileged, instead of an equal position, in the markets of developed countries.

In the Second Committee there was general agreement about several proposals to expand the developing countries' exports of manufactures through the removal of existing trade barriers.<sup>44</sup> These proposals included a standstill on

tariff and non-tariff restrictions and the elimination of import quotas as had been advocated in the GATT Action Program and at the time already accepted by GATT as negotiating principles for the Kennedy Round. One might have thought then that some sort of compromise between developing and developed countries would have been possible in the Second Committee. This was not the case. The reason for it was that the developing countries had inseparably linked their demands for the removal of trade obstacles with far-reaching demands for tariff preferences which appeared unacceptable even to those Western states--notably the United Kingdom, Belgium and France--who were not opposed to the very principle of preferences. Consequently, no agreement about the first category of measures--"removal of trade barriers"--could be reached before a compromise on the second category--"preferences"--could be found.

There were three proposals before the Conference which dealt with the developing countries' trade in manufactures and semi-manufactures; the suggestions of Dr. Prebisch on general preferences; the Belgian Brasseur plan on selective preferences; and the British recommendations on generalizing existing preferences.

Dr. Prebisch argued for a system of general preferences to be granted by the developed countries to all imports of the developing countries, possibly in the form of quantitative targets. Existing partial preferential arrangements, such as those the Common Market and the Commonwealth granted, would be abolished. The developing countries presently

obtaining such preferences would, under the new system, continue to receive at least equivalent benefits. The preferences advocated would be granted for a period of not less than ten years with respect to any given industry in any developing country.<sup>45</sup> This preferential scheme was to a large extent reflected in the demands of the developing countries.

The Brasseur plan was named after Belgian Minister M. Brasseur who first presented it during the discussions on the GATT Action Program in May, 1963<sup>46</sup> and relaunched it in his opening statement at the plenary meeting of UNCTAD-I.<sup>47</sup> It aimed essentially at a selective industrialization of the developing countries. A fairly similar scheme was advocated by France in the "Memorandum" submitted to UNCTAD-I.<sup>48</sup> In the Brasseur plan three categories of developing-country manufactures were distinguished: (a) manufactures offered under competitive conditions for which preferential treatment in the markets of the developed countries was not considered necessary; (b) manufactures produced at such low prices that importing developed countries should take safeguarding measures against market disruption rather than grant preferences; and (c) manufactures which as yet could not be produced under competitive conditions, for which preferences should be granted "adapted to the needs of each particular case and to the conditions of the importing market." The preferences would be selective, of a temporary and decreasing nature, and preferably considered within the framework of



regional organizations. All this would be accomplished by bilateral negotiations between the countries concerned.

The Brasseur Plan should be given the merit of being a serious attempt to accommodate the great many conflicting interests inherent in a general system of preferences. Yet its advocacy of a network of discriminatory tariffs threatened to bury deeply the most-favored-nation principle of trade, and its cumbersome administrative implications aroused even stronger doubts than did the Prebisch plan.<sup>49</sup> These economic aspects of the Brasseur plan were hardly given serious attention at the Conference, however, because of the plan's implicit risks of political and economic dependence of particular developing countries on particular developed countries.<sup>50</sup>

The British proposal was launched by Mr. Heath as point seven of his Ten Key Point speech during the plenary opening session of the Conference.<sup>51</sup> It comprised an offer to extend existing Commonwealth tariff preferences to all developing countries, provided that the other major trading states took similar measures. This condition implied that the Common Market members should also generalize the preferences that they extend to their overseas associates, and that the United States should also embark on granting preferences. Another implication was that the countries presently benefiting from Commonwealth preferences would be provided compensatory advantages in other markets. The

The British plan may be qualified as a system of general preferences, similar to the Prebisch recommendations. However, as the proposal depended completely on the full cooperation of the other Western powers--a cooperation which was still out of the question at the time--it would seem that the British initiative was little more than a political gesture.

Discussions in the Second Committee on the question of tariff preferences were characterized not only by serious differences of opinion between the developed and the developing countries, but also by deep splits within each of the two groups.

Within the Western group there was a three-way split among those opposing the very principle of tariff preferences, those favoring general preferences, and those favoring selective preferences. The first sub-group consisted of the United States and a few small countries such as Switzerland. The United States flatly refused to consider preferences at all, on the grounds that they would not significantly expand the developing countries' export earnings, that they would mean new discrimination and foster uneconomic production, that they would inhibit further tariff reductions by invoking protectionist counter-measures, and that they would foster undesirable political dependency. Consequently, the United States adhered to a further removal of trade barriers along the lines of the GATT Action Program and a reduction of tariffs on the most-favored-nation basis

as aimed at in the Kennedy Round.<sup>52</sup>

Contrary to the United States, neither France and Belgium nor the United Kingdom opposed tariff preferences in principle, but they differed as to whether preferences should be accorded selectively (the French and Belgian positions) or generally (the British position) to the developing countries, and whether it was a necessary precondition for all developed countries to participate in granting the preferences.

Similarly, the developing countries disagreed among themselves on several questions, such as whether the purpose of preferences was to increase export earnings or protect infant industries; whether preferences should be temporary or permanent; and whether preferences should be applied equally to all less developed countries or be differentiated by degree of development. The crucial issue, though, was whether existing preferences should be enjoyed by some countries at the expense of the rest or sacrificed in favor of general preferences for all. On this issue the developing countries were originally divided into three factions.

One faction, comprising those developing countries receiving preferential treatment as Common Market associates, openly favored the Brasseur plan of selective preferences, as this would safeguard the advantages they were already enjoying.<sup>53</sup> Another faction was made up of those developing countries who were likewise reluctant to risk their benefits

under the Commonwealth system without a guarantee of adequate compensation.<sup>54</sup> The third faction consisted mainly of the relatively advanced developing countries, such as some of the Latin American countries, who received no preferences for manufactures at all. These countries wholeheartedly supported a system of general preferences to be granted by all developed countries to all less developed countries alike, and they accused the Brasseur plan of "discrimination" and even worse, of "neo-colonialism."<sup>55</sup>

Faced with charges of "neo-colonialism" the Brasseur plan was doomed to fail. Its adherents within the Group of Seventy-Five eventually followed the call for political unity and fell in line behind a system of general tariff preferences. The consolidated demands of the developing countries were finally expressed in a composite proposal supported by sixty-five nations.<sup>56</sup> It reflected a mixture of the ideas of Dr. Prebisch and those set forth by India during an earlier stage of the discussions.<sup>57</sup>

The joint proposal called for non-reciprocal general preferences "to be extended uniformly by all developed countries to all developing countries in a non-discriminatory manner." These preferences would consist of nil tariffs for certain categories of manufactures and semi-manufactures to be applied immediately; for the remaining goods most-favored-nation tariffs would be halved at once and completely eliminated within five years. The duration of the preferential

treatment would be a period of at least ten years, "counted from the date from which the particular industry in a developing country begins to benefit from the zero tariff." An interesting aspect of the proposal, taken almost literally from the Prebisch Report,<sup>58</sup> was that the new scheme should provide "at least equivalent advantages" for countries enjoying the benefits of existing preferential systems to be abolished. It was this rather vague provision which had enabled the developing countries to conform to the demands for unity.

Whereas the socialist countries were sullen and ignored in most of the other Committees, they participated vigorously in the discussions on trade preferences. The Soviet representative insisted that the USSR had never engaged and would never engage in any discriminatory practices against imports of manufactures and semi-manufactures from the developing countries. He pointed out that the USSR's imports of finished goods from the developing countries had grown nearly five times between 1958 and 1962, and that the total volume of Soviet trade with these countries was expected to increase another four-fold by 1980, reaching eleven billion dollars. This expansion would be achieved chiefly in two ways.

First, the USSR intended to remove all customs duties on goods imported from the developing countries as of 1 January 1965. Second, the USSR was prepared to collaborate

with the developing countries in the form of "branch agreements on a partial division of labor" to produce certain types of goods. Such agreements could provide for the development of long-term cooperation between a given branch of industry in the countries involved and cover all successive stages of production. They could thus promote a mutual exchange of manufactures, semi-manufactures, and raw materials, as well as the supply of capital goods required, to assist the developing countries in establishing industries with greater export potential.<sup>59</sup>

The Soviet Union's pledge to remove customs duties on all goods from the developing countries was only a symbolic concession since those duties were minimal and did not significantly affect the volume of its imports. The offer to engage in joint industrial production with developing countries, on the other hand, was to become the crux of the new Soviet policy towards East-South economic cooperation inaugurated within a year or two after the Geneva Conference. Hence, it deserves some elaboration.

By the early 1960's the Soviet leadership had become anxious about conducting its foreign aid program in a more business-like manner. A number of Soviet economists advocated that the socialist bloc should rely to a greater extent on the international division of labor and base its economic relations with the Third World on the principle of comparative advantage. They suggested in particular that joint production

of such items as petroleum, iron ore, cotton fiber, ferrous metals, and some finished goods would be beneficial for both sides.<sup>60</sup> It would give the USSR and Eastern Europe a stable and usually cheaper supply of needed commodities and manufactures. For the developing countries it was felt that an expansion of their production for foreign trade would increase their export potential more effectively than aid devoted to infrastructure and import-substitution projects.

In short, even before UNCTAD the Soviets had begun to argue the case for trade rather than aid as the most promising lever for economic development. In fact, as early as 1962 some East European states had already engaged in, or contemplated, joint industrial projects with developing countries.<sup>61</sup> However, the USSR was to follow suit only in the latter half of the decade. Elizabeth Valkenier suggests that Khrushchev's reluctance to publicize Moscow's desire for a fair return from foreign aid may have delayed the start of the new Soviet policy;<sup>62</sup> certainly it was not spelled out in detail until after his ouster from power in October, 1964.<sup>63</sup> Yet the point to be made here, and one to which we will return, is that within a relatively short time after the Geneva Conference "production cooperation" and "efficiency" were to become the new watchwords in Soviet trade and aid policy.

Although the Second Committee did adopt a resolution outlining the general features of industrial branch agreements,<sup>64</sup> on the whole the USSR received much criticism on the

question of increased trade in manufactures and semi-manufactures with the developing countries. It was attacked most frequently for the difference between its import and domestic retail prices of goods purchased from the developing countries. Spokesmen from the West and several less developed countries suggested that this markup in domestic sales prices had the effect of depressing consumer demand for these goods.<sup>65</sup> The USSR claimed that retail prices of imported goods were fixed at the same level as those for domestically produced items without discrimination as to origin. It also insisted that the price increase did not affect the value of Soviet imports which were instead regulated by the state according to the needs of the planned economy. Moreover, the pricing issue was regarded as strictly a domestic affair of the USSR.<sup>66</sup>

In the end there were four formal draft resolutions in the field of preferences before the Second Committee. One submitted by the United States advocated tariff reductions on a most-favored-nation basis to products of interest to the developing countries;<sup>67</sup> a fairly similar proposal was advanced by Switzerland.<sup>68</sup> A third recommendation, submitted at an early stage of the discussions by the United Kingdom, suggested both most-favored-nation tariff reductions and general trade preferences.<sup>69</sup> The fourth one was the joint developing-country resolution.<sup>70</sup> As might be expected, the extreme demands expressed in this resolution for a complete



preferential system in favor of all developing countries met the unified opposition of the Western group, including even those who, like the United Kingdom, agreed with the principle of general preferences.

In the face of this West-South impasse, the less developed countries decided to have their position recorded by a vote. On 1 June 1964 the sixty-five nation proposal was officially voted in the Second Committee. The result was sixty-nine in favor, exclusively developing countries; eight opposed, mainly those who, like the United States, rejected the principle of preferences; and twenty-three abstentions, most of the Western group and all of the socialist states, the latter being unhappy with a provision regarding the pricing issue. Some Western countries, including France and Belgium, were conspicuous by their absence at the voting. After this vote the three Western proposals were "provisionally" withdrawn by their sponsors.<sup>71</sup>

In the way characteristic for UNCTAD-I, compromise was then reached through last-minute intensive negotiations in small conciliation groups outside the Second Committee. As a result, the Conference President was able to submit two recommendations to the plenary session--one on removal of trade obstacles and one on preferences--which together replaced the developing countries' proposal adopted by the Second Committee. Both recommendations were adopted without dissent and included in the Final Act as Annexes A.III.4 and

A.III.5. The recommendation on removal of trade obstacles contained no more than a series of "Guidelines for tariff and non-tariff policies in respect of manufactures and semi-manufactures." These guidelines were similar to those found in the GATT Action Program; they were somewhat more comprehensive as they provided for the elimination of differential tariffs and for the harmonization of technical and commercial standards affecting trade, but weaker because target dates were not even mentioned. The second recommendation which dealt with preferences merely noted the various alternative approaches and then postponed indefinitely the whole question by refereing it to a "committee of governmental representatives" to be appointed by the UN Secretary-General in order "to consider the matter with a view to working out the best method of preferences on the basis on non-reciprocity from the developing countries as well as to discuss further the differences of principle." The United States and Switzerland felt obliged to reserve their positions even to this extremely simple solution because they opposed the very principle of preferences.

Whatever the political merits of these compromise recommendations, they entailed no actual results from the standpoint of the developing countries. Like the recommendations adopted on commodity problems and long-term compensatory finance, they reflected the political desire to prevent the Conference from ending in failure rather than an agreement

on basic issues. The acceptance of the compromise did not mean that the developing countries had withdrawn their demands but that they were biding their time. This is the conclusion drawn from the official report on UNCTAD to the UN Secretary-General in which Dr. Prebisch expressed the hope that "further clarification of the matter will help to persuade other important countries to associate themselves in the not too distant future with a preferential policy."<sup>72</sup>

#### The Outcome of UNCTAD-I

One fact shone like a beacon from the tower of Babel of paper and resolutions churned out for three months by the two thousand delegates at the Geneva Conference. This was the diplomatic unity of the developing countries--the Group of Seventy-Five--which made an impact on UNCTAD far out of proportion to the substantive results achieved. The developing countries not only succeeded remarkably in bringing their trade and development problems to the forefront of international discussions but they also managed, despite their lack of real cohesiveness, to turn the 1964 Conference into a full-fledged North-South confrontation on the issues involved. This Southern unity had been the result of sustained efforts which found expression in the Cairo Declaration, the Alta Gracia Charter, the Resolutions of Brasilia, Addis Ababa, Niamey and Teheran and, above all, in the Joint Declaration

of the Developing Countries made at the eighteenth session of the General Assembly, which may be considered the Group's first official appearance.

At the close of the Geneva Conference the Group of Seventy-Five marked its first birthday by issuing another Joint Declaration which stated in part:

This unity [of developing countries at UNCTAD] has sprung out of the fact that they have a common interest in a new policy for international trade and development...The developing countries have a strong conviction that there is a vital need to maintain, and further strengthen this unity in the years ahead. It is an indispensable instrument for securing the adoption of new attitudes and new approaches in the international economic field.<sup>73</sup>

The developing countries rightly considered their solidarity as "the outstanding feature of the entire Conference and an event of historic significance." The feat of the Group of Seventy-Five in snatching political success from the mouth of economic defeat by creating a distinct new organization that the Western powers had not wanted at all was a tour de force. As their Joint Declaration clearly implied, the perpetuation of the Conference first and foremost provided the developing countries with further possibilities to chart a common course on trade and development issues and initiate new action as a political pressure group. Indeed, the Seventy-Five viewed the institutionalization of UNCTAD as "the beginning of a new era" in international

economic cooperation.<sup>74</sup>

New eras, however, do not necessarily produce quick results. Due to clashing national interests, a lack of political preparedness on the part of the major powers to act, and diverging conceptual approaches to the issues under review, the outcome of the Geneva Conference in the economic field was very limited. No agreement of substance could be reached, either on commodity trade where the debate ended in a stalemate, or on tariff preferences where the problem was transferred to a committee of experts, or on long-term compensatory finance where the discussions ended in a request for further studies. In all, some fifteen "General Principles," twelve "Special Principles," and forty-six detailed recommendations were adopted at Geneva. As a consequence of conciliation, these had been considerably watered down by comparison with what the developing countries had proposed. Nevertheless, the majority of the principles were approved by the massed developing countries over the dissenting votes and abstentions of the developed countries, chiefly the Western powers and occasionally including the Soviet bloc. Similarly, the detailed recommendations were approved by voice vote, but few with the consensus that was a prerequisite for their practical implementation.

To appreciate the scope and thrust of the Geneva proceedings, it is necessary to examine, at least in capsule form, the General Principles adopted. The voting record of

the United States, since it is the world's largest trader as well as capital exporter and aid donor, is of particular interest.

General Principle One: Trade relations shall be based on the principle of sovereign equality of states. The only vote against this statement was by the United States; Portugal and the United Kingdom, which still possess colonies, merely abstained.

General Principle Two: There shall be no discrimination on the basis of socio-economic systems. The United States was joined by Canada and the Federal Republic of Germany in voting nay; sixteen countries abstained, most of them Western but including also the Republic of Korea and the Republic of Viet-Nam.

General Principle Three: Every country has the freedom to trade and dispose of its natural resources. The United States, Australia, and Canada cast negative votes; a mixed group of seventeen countries abstained, including three developing countries.

General Principle Four perhaps best expressed the approach of UNCTAD to a "just" reallocation of the world's resources: All countries pledge to pursue internal and external policies in order to narrow the gap between the standard of living in developing countries and that in developed countries. The United States cast the sole negative vote; seventeen Western countries abstained.

General Principle Five: National and international economic policies should be directed towards the attainment of an international division of labor in harmony with the interests of the developing countries in particular. Here there were no negative votes, but nineteen abstentions among the Western countries.

General Principle Six: All countries should cooperate in creating conditions of international trade conducive to a rapid increase in the export earnings of the developing countries. The United States voted against; Nationalist China abstained.

General Principle Seven cut to the heart of the matter: Developed countries should take steps for the stabilization of markets for primary commodities. Here the United States and seven other Western countries voted nay; nineteen countries, all Western except for Brazil, abstained.

General Principle Eight proceeded to the second major demand of the Group of Seventy-Five: Developed countries should grant across-the-board and equal trade preferences, both tariff and non-tariff, to the developing countries as a whole, and such preferences should not be reciprocal. This statement was adopted by a vote of seventy-eight to eleven, with twenty-three abstentions. All Western countries voted against or abstained; oddly enough, among the abstainers were the Republic of Viet-Nam, Rwanda, and Uganda.

General Principle Nine aimed at discrimination against

developing countries by regional economic groupings. Only the Common Market members and Turkey, who would like to be an associate member, abstained. There were no negative votes.

General Principle Ten encouraged the creation of regional economic groupings and integration by the developing countries. This was adopted by one hundred and fifteen votes to none; only Japan, fearful of being increasingly isolated, abstained.

General Principle Eleven proposed that developed countries should increase the net flow of international financial, technical, and economic assistance to the developing countries without political or military strings. The voting here was very similar to that which took place on General Principle Seven. The United States and four other Western countries voted against; nineteen Western countries abstained. Brazil moved to the affirmative side.

General Principle Twelve: Resources released by a general disarmament agreement should be allocated for promoting economic development. Despite the naivete of this proposal, only the United States had the courage to vote against it; but there were thirty abstentions, including the Soviet bloc countries.

General Principle Thirteen incorporated certain principles regarding transit trade of land-locked countries. Since nothing was at stake, this was the only General Principle to receive unanimous approval.



General Principle Fourteen stressed the need for complete decolonization. Australia and the United Kingdom voted nay; the United States and twenty-one other Western countries abstained. Portugal did not vote.

General Principle Fifteen merely stated that international development policies should take into account differences among the developing countries and that special attention be paid to the least developed. No one voted against this harmless truism but the eleven abstainers were a mixed bag.

To tally the American voting on the General Principles adopted at UNCTAD-I, the United States disapproved of nine; in four of these cases it cast the sole dissenting votes. It abstained from voting on two General Principles and it approved only four. As regards the Special Principles, the United States followed the same hard line. It voted against four, abstained on five, and favored only three. Again, it was alone, or very nearly alone, on several votes. Of the forty-six detailed recommendations in the Final Act, the United States voted against six and either abstained or reserved its position on eight. In contrast, the Common Market countries, with the exception of the Federal Republic of Germany, followed the practice of abstention, as for the most part did Japan and the members of the European Free Trade Association other than the United Kingdom. As a result, the United States appeared frequently as a lone

voice of negation confronting a general consensus at UNCTAD favorable to the desires of the developing countries.<sup>75</sup>

Granted that the United States had decided to take a firm stand on the principle of unconditional most-favored-nation treatment in trade at the Conference, some of its votes were rather curious. Why, for example, should the United States have abstained in the voting on Special Principle Four, which simply stated "Developing countries have the right to protect their infant industries"? There are probably two answers. First, within UNCTAD even the most simple and direct statement may be construed to have an expanded and unforeseen meaning. Second, the United States was probably husbanding its prestige as a hardline advocate of free trade throughout the Geneva Conference in preparation for the Kennedy Round of tariff negotiations within GATT later in the year.<sup>76</sup>

The American representative explained his country's general opposition on two grounds: (1) the recommended measures were not really going to provide effective assistance to the developing countries; and (2) some recommendations prejudged the results of the proposed studies because they requested that a program of action be drawn up.<sup>77</sup> Yet it would have been to its political advantage if the United States had merely abstained in the voting, as had most other Western countries, on measures which were going to be adopted anyway. Why was the United States so bullish? The answer

Irving Louis Horowitz suggests is that the internal political atmosphere of an election year, and particularly the emergence of "Goldwaterism," affect American political rationality.<sup>78</sup>

At any rate, American voting behavior at UNCTAD-I clearly showed that the United States was not prepared to consider its own economic interests within a multilateral context, and it shattered the myth that "development intellectuals"--who tend to favor measures such as those at UNCTAD--are in charge of United States policy-making or diplomacy with respect to the Third World.

The USSR and its allies, on the other hand, stood with the majority on twenty-five of the twenty-seven General and Special Principles adopted in the Final Act of UNCTAD-I. The similarity in the voting records of the socialist and the developing countries might tend to suggest a cohesive bond between East and South instead of a broader North-South split on the issues of trade and development considered at Geneva. The Soviet bloc and the Group of Seventy-Five did, of course, share a common desire to restructure existing international economic policies and institutions which they felt operated primarily for the benefit of the industrialized West. Beyond this general aim, however, Eastern and Southern preoccupations at the Conference were quite different, and Soviet attempts to ride the wave of Third World discontent and to direct this force into channels

supportive of socialist interests proved unavailing. In reality, the "Seventy-Five" dominated UNCTAD-I and the Soviet reaction to their demands was in many respects as rigid and negative as that of the United States, though on entirely different grounds.

The USSR wholeheartedly endorsed the contention of the developing countries that their economic problems required a comprehensive review of the whole gamut of trade, aid, and financial policies related to development. Indeed, it argued repeatedly that the developing countries themselves were taking too narrow a view of the systemic problems because East as well as South was adversely affected by an essentially Western World economic order.<sup>79</sup> Nevertheless, the developing countries sharply denounced and terminated cold war polemics as being irrelevant to the proceedings at UNCTAD, and they refused to follow the Soviet lead in pressing for East-West trade reforms.<sup>80</sup>

In spite of its support for fundamental change in the international economic system, the USSR refused to make any real commitments of practical significance to facilitate the economic growth of the Third World. It insisted that the nefarious Western bloc which had exploited the developing countries as colonies in the past and as neocolonies since their independence was exclusively to blame for the conditions precipitating Southern demands at UNCTAD. The USSR denied any responsibility to enter into any commitments such as

commodity agreements, non-reciprocal trade preferences, compensatory financing, or increased aid on a specified scale, and exempted itself from any recommendations for development assistance which held the East and West equally accountable for action.<sup>81</sup>

Above all, the USSR vehemently denied the validity of a North-South, or rich-poor split in international economic relations, the rallying slogan of the Group of Seventy-Five developing countries which laid the burden for development assistance squarely on the shoulders of the industrial world--East as well as West--and paid no homage to Soviet ideological assumptions about the shape and state of world affairs. Since 1964 virtually every piece of Soviet commentary on Third World development has included a tract on this subject. The following excerpt, taken from a Soviet article written more than four years after the Geneva Conference, explains how the North-South formula tramples communist political and ideological dogmas about socialist-Third World solidarity:

The mere statement of the indisputable fact that some countries are poor and others are rich hardly explains anything. Its objective, perhaps, is not so much to shed light on other similarly indisputable truths as to conceal them. To begin with, this concept serves as a point of departure for denying any fundamental difference between socialist and former colonial powers in their attitude toward the third world. It also artificially counterposes the interests of the socialist and developing countries and ultimately aims at diverting the attention of the latter from the continued exploitation of their manpower and

natural resources by the imperialist monopolies, and preventing the strengthening of the alliance between the forces of socialism and those of the national-liberation movement.<sup>82</sup>

The Soviets also deny the existence of an all-encompassing North on purely economic grounds, though this particular angle is rarely aired in public discussions for reasons of socialist prestige. Since 1964 the theme of the limited availability of socialist resources, while never dwelt on at length, has been at the back of many Soviet pronouncements on development assistance. Khrushchev, in a television address on his return from the United Arab Republic in May, 1964 observed that "when the Soviet Union helps the young developing countries and gives them a part of the resources accumulated by its own labor, it restricts for a certain time its own potentialities."<sup>83</sup> The problem of sparing limited resources for international development is especially acute within the Eastern bloc for, as one Soviet writer pointed out:

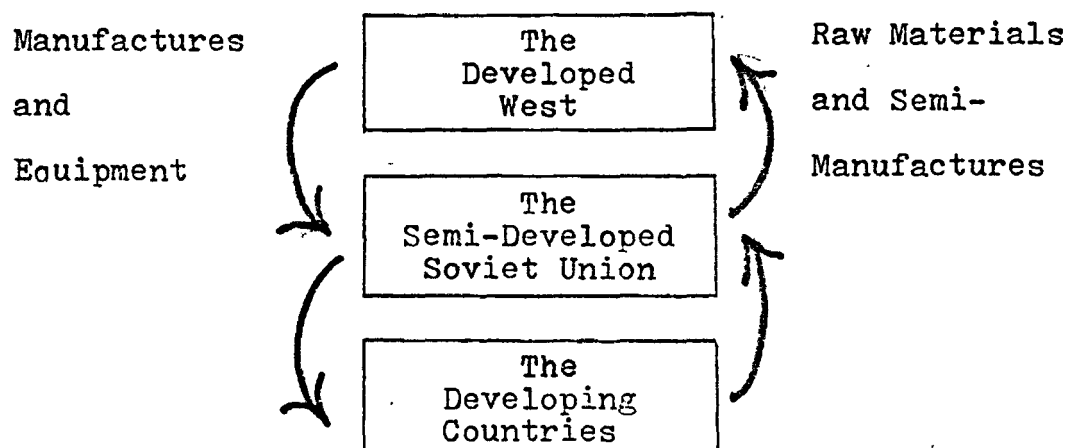
Until quite recently certain East European states which have embarked on the path of socialism have themselves belonged to the ranks of the economically underdeveloped and needed the help of the USSR and other socialist countries...Only in the last few years have they developed adequate potentialities for giving increasing aid and technical assistance to the 'Third World' countries.<sup>84</sup>

The thrust of recent Soviet thinking on aid and trade with the developing countries has been to acknowledge that

the USSR is simply not as rich or economically advanced as the major Western powers, or perhaps more accurately, the United States. From the standpoint of all but a very few Third World countries such as Brazil, the USSR is of course a "wealthy" nation that can well afford to donate more of its "vast" resources for international development. But any such East-South comparisons must give the Soviet leadership little comfort in its drive to close the economic gap between the USSR and the United States, or little incentive to increase substantially its aid spending in the Third World.

A case can be made that the Soviet Union does not fit easily into a simple rich-poor country scheme but rather falls into an intermediate "semi-developed" category, if the commodity pattern of foreign trade is used as the defining variable. Under the traditional developed--developing country dichotomy, it is usually assumed that the commodity pattern of trade shows a concentration of manufactures in the stream from the developed to the less developed countries, and in the reverse flow a concentration of raw materials and semi-manufactures from less developed to developed countries.<sup>85</sup> For a semi-developed country this pattern of foreign trade would suggest: (a) a high level of manufactures imported from the developed, and exported to the developing countries; and (b) a high level of raw materials and semi-manufactures exported to the developed, and imported from the developing countries. Such an intermediate position in

the pattern of world trade is illustrated in the following chart:



G. Rubinshtein, a Soviet economist, has provided some evidence to support the above hypothesis.<sup>86</sup> He points out that the commodity composition of Soviet exports still retains a raw material character to a considerable degree. In 1964 more than 40 per cent of the total value of Soviet exports was accounted for by ten primary commodity classes subject to only minor processing, such as fuel, ores, timber, grains, and foodstuffs. These raw materials and semi-processed goods have chiefly filled the import requirements of the Eastern bloc and the advanced Western states and Japan.

Soviet manufactures, on the other hand, have represented only about 2-2½ per cent of total Soviet trade with the advanced West. Given the USSR's need to increase exports in this category, Rubinshtein contends that the only potential markets for such an expansion lie in the Eastern Bloc and, to a greater extent, in the developing countries. This is



because, as he notes, East-South trade is characteristic of a developed--developing country flow:

In the main, the Soviet Union exports to the developing countries the equipment and materials that are most necessary to the latter; and it imports the traditional raw materials and products of the young industry of these countries. 87

Even by these crude measures, the pattern of Soviet trade with the non-communist world can be summarized as that of a semi-developed country. On the one side there is a net stream of raw materials and semi-manufactures from the developing countries to the USSR, and further from the USSR to the advanced West; on the other side, there is a reverse flow of manufactures and machinery from the West to the USSR, and further from the USSR to the developing countries.

Although the Soviets are not as forthright in distinguishing the relative positions of the East and the West in world trade, they do implicitly recognize the disparity in economic strength by their contention that development assistance should not be evaluated by a cash register alone. Rather, the Third World is admonished to weigh the moral as well as material benefits accruing from Soviet aid:

The collaboration of the Soviet Union and the other socialist countries with the developing countries means not only direct but also enormous indirect assistance to them. This aid strengthens the position of the liberated countries in their relationships with the imperialist powers, and it is a powerful shield which defends the young states against the attempts of colonial arbitrary rule from the

imperialist powers...This is why it would be incorrect to determine the scale and significance of economic collaboration of the USSR and other socialist countries with the liberated countries, proceeding merely from the simple amount of assistance and not from its character and goals, and its role in the struggle of the peoples for economic development.<sup>88</sup>

In sum, the Soviet Union has contended since 1964 that on political, economic and moral grounds the North-South confrontation formula is utterly untenable. Its protests, however, have not swayed the developing countries from establishing the North-South split as the relevant focus of UNCTAD and denying the priority of East-West issues. The "Seventy-Five" realize the strategic importance of structuring conflict within UNCTAD along lines which gives them the initiative in making proposals and an unassailable majority, when they choose to exercise it, to determine the outcome. At the same time, the developing countries are well aware of how little the Soviet bloc has to offer in the way of development assistance in comparison with the Western powers. As a consequence, the USSR noted on several occasions during UNCTAD-I that most of the discussions and recommendations were concerned only with West-South relations, implying that the socialist bloc was being ignored, and it warned the Group of Seventy-Five during the eleventh-hour negotiations on the Final Act not to compromise their interests "in an atmosphere of secrecy and haste."<sup>89</sup>

## NOTES TO CHAPTER IV

<sup>1</sup>This treatment of the major economic issues raised at UNCTAD will not include an examination of the legitimacy or practicality of the developing countries' claims. Rather, the analysis will focus on Western and Soviet reactions to those claims and the outcome of the various Committee discussions and negotiations. Two highly readable accounts of the extent to which the proposed trade measures put forward at UNCTAD may be expected to contribute to economic development are: Harry G. Johnson, Economic Policies Toward Less Developed Countries (Washington, D.C.: Brookings Institution, 1967); and Stanley D. Metzger, "Developments in the Law and Institutions of International Economic Relations: UNCTAD," American Journal of International Law, vol. 61, no. 3 (July 1967), pp. 756-775.

<sup>2</sup>The results of the First Committee's work on commodity problems are included in the Final Act of UNCTAD-I as Annexes A.II.1 - A.II.9. In this section consideration is given only to the discussions which eventually led to recommendation A.II.1, entitled "International commodity arrangements and removal of obstacles and expansion of trade," which was the key recommendation on commodity trade.

<sup>3</sup>UN Document E/CONF.46/C.1/L.17/Rev.1 and Corr.1 and 2.

<sup>4</sup>UN Document E/CONF.46/C.1/L.17.

<sup>5</sup>UN Document E/CONF.46/C.1/SR.17.

<sup>6</sup>Report of the First Committee, Proceedings of the United Nations Conference on Trade and Development, vol. I, Annex D (New York: United Nations, 1964), p. 121. Further references to the eight-volume edition of UNCTAD-I documents and reports are cited as Proceedings, UNCTAD-I, vol. I, II, etc.

<sup>7</sup>UN Document E/CONF.46/C.1/SR.7.

<sup>8</sup>UN Document E/CONF.46/C.1/SR.41.

<sup>9</sup>Val Zorin and I. Ivanov, "Geneva: Some Lessons and Conclusions," Mirovaya Ekonomika i Mezhdunarodnyye Otnosheniya /World Economy and International Relations/ (Moscow), no. 8 (1964), pp. 75-84, at 83-84.

<sup>10</sup>Pravda, 27 October 1965, pp. 3-4, as contained in The Current Digest of the Soviet Press, vol. XVII, no. 43 (17 November 1965), pp. 6-8, at 7.

<sup>11</sup>See Chapter II, note 38 on American domestic pressures at the Geneva Conference.

<sup>12</sup>UN Document E/CONF.46/C.1/SR.17.

<sup>13</sup>See the opening address by Edward Heath, head of the British delegation to the Geneva Conference, Proceedings, UNCTAD-I, vol. II, pp. 390-394.

<sup>14</sup>Memorandum Concerning Certain Items on the Agenda of the United Nations Conference on Trade and Development: Submitted by France, Proceedings, UNCTAD-I, vol. VI, pp. 18-27, at 20-23.

<sup>15</sup>Isaiah Frank, "Aid, Trade and Economic Development: Issues Before the U.N. Conference," Foreign Affairs, vol. 42, no. 2 (January 1964), pp. 210-226, at 215.

<sup>16</sup>Reservations were made by nine Western states.

<sup>17</sup>The results of the Third Committee's work on financing for an expansion of international trade and improvement of the invisible trade of developing countries are included in the Final Act of UNCTAD-I as Annexes A.IV.1 - A.IV.26. In this section consideration is given only to the discussions which led to the two recommendations on compensatory finance, A.IV.17 entitled "Study of measures related to the compensatory credit system of the International Monetary Fund," and A.IV.18 entitled "Supplementary financial measures."

<sup>18</sup>See Chapter II,

<sup>19</sup>International Compensation for Fluctuations in Commodity Trade (New York: United Nations, 1961), p. 15.

<sup>20</sup>Compensatory Financing of Export Fluctuations (Washington, D.C.: International Monetary Fund, 1963), p. 8.

<sup>21</sup>A.S. Friedeberg, The United Nations Conference on Trade and Development of 1964: The Theory of the Peripheral Economy at the Centre of International Political Discussions (Netherlands: Rotterdam University Press, 1969), pp. 138-139.

<sup>22</sup>Edward M. Bernstein, "The International Monetary Fund," in Richard N. Gardner and Max F. Millikan (eds.), The Global Partnership: International Agencies and Economic Development (New York: Praeger, 1968), pp. 131-151, at 139-140.

<sup>23</sup>Friedeberg, cited above at 21, loc. cit.

<sup>24</sup>Towards a New Trade Policy for Development, Report by the Secretary-General of the Conference, Proceedings, UNCTAD-I, vol. II, pp. 3-64, at 42-45.

<sup>25</sup>Proceedings, UNCTAD-I, vol. I, pp. 139-141, at 139.

<sup>26</sup>Ibid., p. 140.

<sup>27</sup>Ibid., pp. 140-141.

<sup>28</sup>Ibid., p. 140.

<sup>29</sup>UN Document E/CONF.46/C.1/SR.34.

<sup>30</sup>See the statement by the representative of Brazil, UN Document E/CONF.46/C.3/SR.31.

<sup>31</sup>UN Document E/CONF.46/C.3/L.45/Rev.1.

<sup>32</sup>UN Document E/CONF.46/C.3/L.48.

<sup>33</sup>UN Document E/CONF.46/C.3/L.49.

<sup>34</sup>UN Document E/CONF.46/C.3/SR.56.

<sup>35</sup>Report of the Third Committee, Proceedings, UNCTAD-I, vol. I, p. 202.

<sup>36</sup>UN Document E/CONF.46/C.3/SR.31.

<sup>37</sup>At UNCTAD the expressions "compensatory finance" and "supplementary finance" were often used synonymously. The latter expression was preferred by those who wished to avoid any "reparation for injustice" element which, especially under the influence of the Prebisch doctrine, had become closely associated with the expression "compensatory finance." Friedeberg, cited above at 21, p. 144.

<sup>38</sup>UN Document E/CONF.46/C.3/L.37.

<sup>39</sup>Report of the Third Committee, Proceedings, UNCTAD-I, vol. I, p. 201.

<sup>40</sup>The results of the Second Committee's work on trade in manufactures and semi-manufactures are included in the Final Act of UNCTAD-I as Annexes A.III.1 - A.III.8. In this section consideration is given mainly to the problems and discussions which eventually led to recommendations A.III.4, entitled "Guide lines for tariff and non-tariff policies in respect of manufactures and semi-manufactures from developing countries," and A.III.5, called "Preferences," both of which were the key recommendations in this field.

<sup>41</sup>"Trade in Manufactures and Semi-Manufactures," Paper prepared by the Bureau of General Economic Research and Policies of the UN Department of Economic and Social Affairs, Proceedings, UNCTAD-I, vol. IV, pp. 3-41, at 4-5.

<sup>42</sup>See G. Griffith Johnson, "A Perspective on the UNCTAD," Department of State Bulletin, vol. 50, no. 1290 (16 March 1964), pp. 410-415, at 414-415.

<sup>43</sup>Memorandum Concerning Certain Items on the Agenda of the United Nations Conference on Trade and Development, cited above at 14, p. 27.

<sup>44</sup>Report of the Second Committee, Proceedings, UNCTAD-I, vol. I, p. 144.

<sup>45</sup>Towards a New Trade Policy for Development, cited above at 24, pp. 60-61.

<sup>46</sup>Basic Instruments and Selected Documents, Thirteenth Session (Geneva: General Agreement on Tariffs and Trade, 1964), p. 38.

<sup>47</sup>Proceedings, UNCTAD-I, vol. II, pp. 108-113, at 110-113.

<sup>48</sup>Memorandum Concerning Certain Items on the Agenda of the United Nations Conference on Trade and Development, cited above at 14, pp. 23-25.

<sup>49</sup>Harry G. Johnson calculated that on the basis of some seventy developing and twenty developed countries, one thousand products would require nearly one and a half million bilateral negotiations. Economic Policies Toward Less Developed Countries, cited above at 1, p. 198.

<sup>50</sup>Ibid.

<sup>51</sup>Proceedings, UNCTAD-I, vol. II, pp. 390-394, at 393.

<sup>52</sup>UN Document E/CONF.46/C.2/SR.27.

<sup>53</sup>UN Document E/CONF.46/C.2/L.27.

<sup>54</sup>UN Document E/CONF.46/C.2/L.38.

<sup>55</sup>UN Document E/CONF.46/C.2/L.39.

<sup>56</sup>UN Document E/CONF.46/C.2/L.40 and Add.1-5.

<sup>57</sup>UN Document E/CONF.46/C.2/L.35.

<sup>58</sup>Towards a New Trade Policy for Development, cited above at 24, p. 61.

<sup>59</sup>UN Document E/CONF.46/C.2/SR.24.

<sup>60</sup>L. Zevin, "The Economic Relations of the European People's Democracies with Underdeveloped Countries," Mirovaya Ekonomika i Mezhdunarodnyye Otnosheniya /World Economy and International Relations/ (Moscow), no. 11 (1962), pp. ; and A. Netrusov, "The Development of Economic Relations Between Countries with Different

Social Systems," Vneshnyaya Torgovlya /Foreign Trade/ (Moscow), no. 10 (1961), pp.

<sup>61</sup>For example, Romania agreed to build in Indonesia a number of metallurgical extractive and manufacturing plants, payment for which would be received in the form of goods produced. East Germany was already by then obtaining yarn from textile factories built with its aid in the United Arab Republic. Zevin, cited above at 60, p. 127.

<sup>62</sup>Elizabeth K. Valkenier, "New Soviet Views on Economic Aid," Survey (London), no. 76 (Summer 1970), pp. 17-21, at 20.

<sup>63</sup>L. Zevin, "The Mutual Advantages of Economic Cooperation Between the Socialist and the Developing Countries," Voprosy Ekonomiki /Problems of Economics/ (Moscow), no. 2 (1965), pp. 72-80. Even at the 1964 UNCTAD Conference the vagueness of Soviet Foreign Minister N. Patolichev's remarks on industrial branch agreements contrasted sharply with the keen interest in and specific proposals for the international division of labor on the part of Romania, Czechoslovakia, and Poland. See UN Documents E/CONF.46/C.2/SR.6, 8-9.

<sup>64</sup>This resolution was adopted by the Conference as Annex A.III.2 of the Final Act.

<sup>65</sup>See the remarks of the representative of India, UN Document E/CONF.46/C.2/SR.16.

<sup>66</sup>UN Document E/CONF.46/C.2/SR.24.

<sup>67</sup>UN Document E/CONF.46/C.2/L.47.

<sup>68</sup>UN Document E/CONF.46/C.2/L.26.

<sup>69</sup>UN Document E/CONF.46/C.2/L.25.

<sup>70</sup>UN Document E/CONF.46/C.2/L.40 and Add.1-5.

<sup>71</sup>Report of the Second Committee, Proceedings, UNCTAD-I, vol. I, p. 156.



<sup>72</sup>"The Significance of the United Nations Conference on Trade and Development," Report to the Secretary-General of the United Nations by the Secretary-General of the Conference, Proceedings, UNCTAD-I, vol. II, pp. 549-554, at 550.

<sup>73</sup>Final Act and Report, Annex B-1, Proceedings, UNCTAD-I, vol. I, pp. 67-68. Actually, seventy-seven countries signed the 1964 Declaration and by the time UNCTAD-III convened in 1972 the ranks of the Group had swollen to nearly ninety. For political reasons, though, the original name has been kept.

<sup>74</sup>Ibid., p. 67.

<sup>75</sup>"The United States delegation appeared to lack both an understanding of the basic needs of the less developed countries (the LDC's) and any desire to gain one. An American observer remarked of the chief delegate of his country: 'He had nothing to offer and so he offered nothing.' The U.S. became clearly identified as the least willing of the industrial countries to even consider a 'new' international division of labor which would permit the developing countries to industrialize." J.C. Mills, "Canada at UNCTAD," The International Journal, vol. 20 (Spring 1965), p. 214; quoted in Johnson, cited above at 1, p. 7.

<sup>76</sup>This is the view of Paul O. Proehl, "The Geneva Proposals to Reform International Trade: 'A Clear Convergence of Responsibilities'?", George Washington Law Review, vol. 33, no. 5 (June 1965), pp. 1031-1066, at 1038.

<sup>77</sup>Final Act and Report, Annex B, Proceedings, UNCTAD-I, pp. 82-83.

<sup>78</sup>Irving Louis Horowitz, Three Worlds of Development: The Theory and Practice of International Stratification (New York: Oxford University Press, 1966), pp. 186-187. This point is elaborated in Chapter II of this study.

<sup>79</sup>A. Bykov, "CMEA and International Economic Cooperation," International Affairs (Moscow), no. 2 (1964), pp. 68-72, at 70.

<sup>80</sup>See the statement by the representative of Ceylon, UN Document E/CONF.46/C.5/SR.21. A Soviet correspondent remarked with some exasperation that delegates "want to keep politics out of the Conference, to restrict all discussions to purely economic matters and, if possible, submerge them in endless petty details." In his view, "a precise formulation of the connection between politics and economics [would be] of great importance for the course of the Conference discussions." S. Mikoyan, "Economic Forum in Geneva," International Affairs (Moscow), no. 5 (1964), pp. 46-50, at 48.

<sup>81</sup>See the closing statement by N.S. Patolichev, head of the Soviet delegation at the Geneva Conference, Proceedings, UNCTAD-I, vol. II, pp. 534-537, at 535.

<sup>82</sup>M. Lavrichenko, "Who Is Responsible for Third World Backwardness?," International Affairs (Moscow), no. 8 (1968), pp. 41-46, at 41.

<sup>83</sup>Pravda, 29 May 1964, pp. 5-6, as contained in The Current Digest of the Soviet Press, vol. XVI, no. 21 (1964), pp. 17-18, at 17.

<sup>84</sup>Ye. Konovalov, "Problems of Mutually Advantageous Cooperation," Mirovaya Ekonomika i Mezhdunarodnyye Otnosheniya /World Economy and International Relations/ (Moscow), no. 2 (1964), pp. 60-73, at 63.

<sup>85</sup>There are, of course, some important trade patterns which do not fit into such a general model. For example, the highly-developed United States is a major exporter of both manufactured goods and agricultural products.

<sup>86</sup>G. Rubinshtein, "Some Problems in the Development of Foreign Trade," Voprosy Ekonomiki /Problems of Economics/ (Moscow), no. 9 (1966), as contained in Soviet and East Europe Foreign Trade, vol. III, no. 2 (March/April 1967), pp. 54-67.

<sup>87</sup>Ibid., p. 60.

<sup>88</sup>M. Lavrichenko, "Strengthen Economic Ties, Put An End to Colonialism," Mirovaya Ekonomika i Mezhdunarodnyye Otnosheniya /World Economy and International Relations/ (Moscow), no. 2 (1964), pp. 60-73, at 63.

<sup>89</sup>Pravda, 14 June 1964, p. 5, as contained in The Current Digest of the Soviet Press, vol. XVI, no. 24 (1964), pp. 24-25, at 24.

## CHAPTER V

### THE NEW DELHI AND SANTIAGO CONFERENCES

UNCTAD was given a broad mandate to deal not only with world trade problems but with virtually every aspect of economic development. Under the vigorous leadership of Dr. Prebisch the organization has thrust itself into the activities of other agencies in the field and invaded some privileged preserves to put pressure on the conscience of the rich. Problems of institutional fragmentation have been created along the way, despite the various safeguards written into the UNCTAD Charter at the insistence of the West. Yet major policy changes are rarely carried out with organizational neatness and, as Richard Gardner observed, "if UNCTAD has been 'minding everyone else's business,' then this may stimulate everyone else to get on with their business more effectively."<sup>1</sup> Between the 1964 and 1968 Conferences UNCTAD did in fact spur several Northern-dominated international economic institutions to afford higher priority to the economic problems of the less developed countries.

By far the most substantial result of UNCTAD has been in the area of short-term compensatory finance. In response to Resolution A.IV.17 adopted at the Geneva Conference which recommended that the Fund study various measures to liberalize its policy on compensatory finance, the Executive Board of the IMF in September, 1966 expanded its special drawing rights facility from 25 per cent to 50 per cent of a member's quota to offset balance-of-payments difficulties arising from

a shortfall in export receipts.<sup>2</sup>

The Fund's efforts do not exhaust the possibilities of compensatory financing. On the invitation of UNCTAD Resolution A.IV.18, the World Bank staff at the end of 1965 submitted a specific plan to the United Nations for supplementary financing of adverse movements in the exports of developing countries which require long-term assistance to help avoid disruption of development programs.<sup>3</sup> The suggested scheme would thus be added to and go beyond the IMF's short-term facility. However, in both cases the problem arises as to what internal policies would be required to render a recipient eligible for aid.

UNCTAD also stimulated renewed activity within GATT. A Special Session held at Geneva in November, 1964 drew up a protocol to introduce a new set of articles--Part IV on Trade and Development--which gave contextual recognition to the role of exports in economic development.<sup>4</sup> In its three articles (XXXVI-XXXVIII) the Contracting Parties accepted the need "to provide in the largest possible measure more favorable and acceptable conditions of access to world markets" for the products of developing countries and agreed "wherever appropriate to devise measures designed to stabilize and improve conditions of world markets in these products, including in particular measures designed to attain stable, equitable, and remunerative prices."

A case could be made that the amendment to the General Agreement did little more than codify trends already underway

in the Kennedy Round of trade and tariff negotiations which had formally opened in May, 1964 within GATT. But the adoption of Part IV served both to give legal shape to norms that had been accepted by the developed countries as essential for promoting economic development and to define more clearly the areas in which concerted action was needed. In this connection, no consensus had emerged between the developed and developing Contracting Parties on either tariff preferences or international commodity agreements designed to prevent or reverse long-term adverse trends in commodity prices.

The Kennedy Round was only a qualified success from the point of view of the less developed countries. Although deeper tariff cuts were made than in any previous negotiation, the average reduction on the range of products of special importance to the developing countries was significantly smaller than in the case of products traded between the developed Western countries.<sup>5</sup> The sector in which the greatest hope had been held for the total elimination of tariffs had been that of tropical products, in which the developing countries have a near monopoly. But only 39 per cent of dutiable imports in that category benefited from any tariff reduction. The principal impediment to more important results came from the rivalry of the participating developing countries themselves over the well-worn issue of whether general preferences should be established at the sacrifice of existing preferential arrangements. The African countries

who were already enjoying preferential access to the Common Market in the field of tropical products put pressure to bear on the EEC to uphold its obligations under the Yaounde Convention. This in turn inhibited action by others, including the United States, to effect an overall trade liberalization in favor of the developing countries as a whole.<sup>6</sup>

Although negotiations between developed and less developed Contracting Parties continued under the Kennedy Round until the spring of 1967, they were "sporadic and almost exclusively bilateral in character."<sup>7</sup> The developing countries failed to achieve general agreement on specific issues or to strengthen their bargaining position by negotiating jointly with the developed countries within GATT.

The relative lack of success by the developing countries within GATT must be attributed in part to their growing indifference to it. During the years between the Geneva and New Delhi Conferences most of them had transferred their allegiances and their hopes to UNCTAD. Those who continued to participate actively in GATT, such as India and Pakistan, did so because of their established contractual relationships with the developed countries there. Many of these countries made it clear, however, that they regarded UNCTAD with its nearly universal membership and reassuring ideology as a more suitable organization for the examination of the economic problems of the poor nations.<sup>8</sup> This view was shared by the

developing countries as a whole,<sup>9</sup> though their experience at the Geneva Conference had hardly been more fruitful than at GATT.

Unlike the situation in GATT, the group system became an integral feature of the operations of UNCTAD's permanent machinery--the Trade and Development Board and its Committees--not merely a temporary reaction to the pressures of the 1964 Conference. The Group of Seventy-Five has come to be both the main entity for the expression of the demands of the developing countries and a vital instrument to enhance their bargaining power vis-a-vis the developed countries. On the Western side, the Development Assistance Committee (DAC) and other bodies of the Organization for Economic Cooperation and Development are the places where attempts are made to coordinate trade and aid negotiating positions for external purposes. The socialist countries generally maintain close policy coordination through the Council for Mutual Economic Assistance (CMEA), but in spite of Soviet hegemony the independent line of several of the "fraternal allies" has been reflected to an extent within UNCTAD proceedings. For example, as was noted in Chapter III, Poland, Hungary and Bulgaria were all reported to have sought closer contact with GATT during the Geneva Conference; Romania not only did the same but even applied for membership in the Group of Seventy-Five.<sup>98</sup>

The group system has had a significant impact on the operation of UNCTAD, but questions arise about its advantages



and disadvantages for the resolution of conflicts.<sup>11</sup> On the positive side one can agree with Thomas Hovet's general observation that "as the United Nations has become enlarged both in its membership and in terms of the variety of interests represented in that membership, the bloc and group arrangements have become a necessity for effective negotiation."<sup>12</sup> A group system facilitates conference diplomacy because it puts pressure on members to formalize their positions and hammer out matters of substance before any comment is made in the formal meetings. Although cumbersome, it is a mechanism that enables a large organization to get its work done. Moreover, the group system provides an opportunity for the less developed countries to exert much stronger political pressure than they can individually or by smaller groupings and ad hoc alliances.

On the negative side it has become apparent that the "willingness to seek areas of acceptable compromise" expected by Hovet may be lacking and, indeed, have been replaced by a sort of group rigidity which makes confrontation more likely than conciliation. This occurs when a "demand-offer" type of conflict arises: a group of countries presents maximal demands to another group which tends to respond with minimal offers. During the 1964 Conference the experience was that the Group of Seventy-Five had a tendency to assume a bargaining position at the highest common denominator in order to satisfy the divergent interests and views of all its members. The

Western group underwent a similar process, but in the opposite direction: members tended to agree primarily not to embarrass each other on vulnerable points, which meant that positions frequently coalesced around the lowest common denominator. Thus, the pattern that emerged at Geneva was that the "Seventy-Five's" maximal demands collided head-on with the West's minimal concessions. Group negotiators came to the intergroup meetings with rather inflexible positions and little authority to compromise, which had a further delaying effect on the search to find a constructive middle ground. In this way the group system tended to accentuate differences and divisions rather than facilitate intergroup communication and joint convergent efforts. It would not be correct to conclude, however, that the difficulties caused by the manner in which the group system operated during and after the 1964 Conference were primarily responsible for the disappointing results in UNCTAD. The cumbersomeness of the organization's machinery and groups is essentially a reflection of the fundamental inability of nations to reach international agreements on trade and development, not merely the mechanics of the institution.

Contributing to the tendency of the developing countries to take strong stands on the issues before the Conference was the realization that a vote expressing their concerned position followed by continual advocacy of a proposal might pave the way for future agreement. The outstanding example

of this sort of action is furnished by the issue of tariff preferences. The proposal for a system of general non-reciprocal, and non-discriminatory tariff preferences for the exports of the developing countries had not been accepted at the first Conference. Most Western countries favored a selective system as to both countries and goods, and the United States and some other developed countries were against the whole idea. However, after lengthy consideration of this issue there occurred a major change in the attitudes of the OECD countries and in particular the United States, which culminated in acceptance of the concept and a proposal submitted to UNCTAD-II for a preferential system.<sup>13</sup>

Nevertheless, the "Seventy-Five" cannot expect to vote into existence viable programs or institutions without the political and financial support of the major developed countries. An example of attempts in this regard which have thus far failed is the creation by the developing countries in the General Assembly of the United Nations Capital Development Fund in December, 1966.<sup>14</sup> The vote to establish this institution witnessed the South lining up against the North, including the developed countries of the East as well as the West. The first pledging conference in October 1967 was even more ominous; only \$1.3 million was pledged by twenty-two less developed countries in local currencies--no advanced country of the East or West opened its pocketbook. Because it seemed ridiculous to set up a moribund agency, the

UN Development Program was asked to administer the paltry sum scraped together.<sup>15</sup>

Although some of the early sessions of the Trade and Development Board and its Committees were marked by sharp confrontations between the rich and poor nations, the futility of reliance on adopting resolutions opposed by the developed countries was soon recognized by the Group of Seventy-Five. By the time of the 1968 Conference attempts to reach agreement and compromises without recourse to voting had become standard practice in UNCTAD. A system of reconciliation of positions evolved amounting to an informal application of the conciliation machinery that had been established following the Geneva Conference, but never formally put into operation. In Richard Gardner's words, "the de jure conciliation procedure encouraged and institutionalized de facto conciliation."<sup>16</sup>

This development was due in part to the lack of a major issue before UNCTAD which might have entailed real sacrifices for the developed countries. Between the first and second Conferences the continuing machinery did not reach the point at which decisions could be taken on measures adopted at Geneva, nor did it carry the discussion of specific proposals to the stage where final agreement on their implementation could be reached at New Delhi.<sup>17</sup> But the Trade and Development Board, the four Committees and their numerous sub-groups were able to explore and investigate issues in more detail than

had been the case during the three sessions of the Preparatory Committee for the 1964 Conference. This building up of a body of technical expertise and knowledge of the various groups' positions culminated in the suggestion by Paul Jolles of Switzerland, acting in his capacity as president of the fifth Board, of several "points of crystallization" believed to be mature for action at New Delhi.<sup>18</sup> These issues were as follows:

1. Commodity policy: There was general consensus that a commodity-by-commodity approach was the most promising way of reaching agreement on international action to be taken in this field; specifically, it was hoped that obstacles to agreement on cocoa and sugar could be overcome. Emphasis was also placed upon guidelines for an international commodity policy, including functions, operating and financing of buffer stocks; market stabilization techniques; price policies; and diversification of production.

2. Manufactures and semi-manufactures: The question of the granting of preferences for finished products on a non-reciprocal, non-discriminatory basis in favor of the developing countries was considered "mature for consideration" at the second Conference, and the intent was that agreement should be reached on the main outlines of a preferential system, with particular attention paid to the least advanced among the developing countries.

3. Financing: The Committee on Invisibles and Financing had worked out at its second session in April 1967 a diagnosis of

the problems facing donors and recipients of development aid. This "Agreed Statement on the Problems of Development"<sup>19</sup> was intended to serve as the basis of action by the second Conference regarding the following topics: the terms of aid; the tying of aid; problems of indebtedness; commercial credit; and private capital. A major financial proposal was the World Bank staff plan for supplementary financial measures which was expected to be finalized within the inter-governmental group on supplementary financing shortly after the fifth session of the Board. It was hoped that the group would submit the broad outlines of a draft which would serve as the basis of agreement on the principles of an operative scheme.

4. Trade between countries with different social and economic systems: It was envisaged that discussion would focus both on the commercial interests of the developing countries as they relate to East-South trade, and on the problems of East-West trade which were considered in some depth at the fifth session of the Board.

5. Other issues: The world food problem, trade expansion and economic integration among developing countries, shipping, the development of land-locked countries, and the special problems of the least advanced of the developing countries were also to be discussed at the 1968 Conference.

During the last quarter of 1967 the three major groups of countries undertook further preparations among themselves for the second Conference. A ministerial meeting of the

OECD was held in late November which formulated specifically for presentation at New Delhi an acceptance in principle of a generalized scheme of preferences for the manufactures and semi-manufactures of developing countries.<sup>20</sup> This was a very important concession, but the only one the developing countries were to get at the Conference. During the same month Dr. Prebisch met with the ministers of the Council for Mutual Economic Assistance in Moscow. Although the Soviets did not comment publicly on the meeting, there is little doubt that the need to put East-West trade on a normal footing was the primary topic of concern.<sup>21</sup>

The developing countries had decided to convoke a ministerial meeting as the main preparation for the group's negotiating stand at New Delhi.<sup>22</sup> This meeting, at Algiers in October 1967, had been preceded by the work of a coordinating committee in Geneva and by regional meetings where proposals were prepared as a basis for elaborating a comprehensive program of action for the second Conference. The Asian developing countries met in Bangkok and released the Bangkok Declaration;<sup>23</sup> the Latin American countries held a meeting of the Special Commission on Latin American Coordination, at Bogota, and prepared the Charter of Tequendama;<sup>24</sup> and the African countries met just prior to and during the initial days of the Algiers meeting and issued the African Declaration of Algiers.<sup>25</sup>

On the basis of these regional submissions the ministerial meeting of the Group of Seventy-Five--which by then comprised

eighty-six developing countries--formulated the Charter of Algiers.<sup>26</sup> This position paper for UNCTAD-II embodied a general statement of the current unfavorable situation for sustained development and stated that "traditional approaches, isolated measures, and limited concessions" were not sufficient to meet the developing countries' urgent needs. The New Delhi session should accordingly move from the stage of deliberations reached at Geneva in 1964 to the plane of practical action by implementing "a global strategy for development."<sup>27</sup> The Charter's program of action called upon the developed countries to support the Group of Seventy-Five's efforts regarding commodity problems and policies; expansion of exports of manufactures and semi-manufactures; development financing; invisibles, including shipping; general trade policy issues; trade expansion and economic integration among developing countries; and special measures to be taken in favor of the least developed among the developing countries.

On some of these issues there were major divergences of interest among the developing countries and on topics such as phasing out of existing trade preferences and special status for the least advanced developing countries there were intense but inconclusive negotiations at Algiers.<sup>28</sup> But unless important interests or the overall goals of the Group were adversely involved, advocacy by a group of countries, or even a single country, of a proposal to be addressed to the developed countries was usually sufficient to result in the



inclusion of the item in the Charter of Algiers. Because of the pressure of the developing countries to include everything of interest to each one, those "points of crystallization" on which some agreement was likely lost prominence in the expanded Charter of Algiers. Although six high-level "goodwill missions" were dispatched from Algiers to discuss the document with governments of developed countries before the New Delhi Conference, the developing countries were never able to dispel the impression that they had presented a "shopping list," and a long one at that, rather than a serious contribution to international negotiations. Confronted by the basically negative response to its efforts, the Group of Seventy-Five tended to embrace the Charter even more firmly during the Conference, as they perceived that the delegations of the developed countries were in no position to concede what was being demanded.

#### The New Delhi Conference

What the developed countries could offer at UNCTAD-II fell so far short of the aspirations of the developing countries that the general atmosphere in New Delhi was one of disastrous failure. The Western states had come to the Conference with a major contribution in the field of tariff preferences but in other areas many were hampered by the conflicting requirements of domestic budgetary demands and by a lack of any adequate official and public support for providing meaningful development assistance to the poor nations.

The problems of UNCTAD-II can also be attributed in part to unfortunate timing. Originally scheduled for 1966, it had been repeatedly postponed as a result of technical problems of administration and internal disputes over the location of UNCTAD headquarters and the venue of the Conference itself. The delay had been unfortunate for two reasons over and above the weakness of organizational efficiency that it reflected. First, the intention of the biennial meeting schedule was to maintain the moral pressure on the developed countries generated at the 1964 North-South confrontation at Geneva. The four-year interval, however, permitted the developed countries to absorb the cultural shock of intimate exposure to the grievances of the developing countries and to detect the logical weaknesses of some of their arguments. Second, the year 1968 was an inauspicious moment of history for the poor nations to attempt another appeal to the consciences of the rich. The Tet offensive in Vietnam which distracted international attention from the problem of economic development and balance-of-payments difficulties in the United States and the United Kingdom were certainly not propitious conditions for obtaining concessions from the West. Foreign aid had been on a plateau, and if anything declining, for some years and it was highly unlikely that the major donor states could have brought themselves to offer an increased quantity of aid in the face of deepening monetary crisis.<sup>29</sup>

Nevertheless, while it is conceivable that the

international climate for UNCTAD-II would have been somewhat more favorable a year or two earlier, it is hard to see this as a missed opportunity that would have meant a seriously altered outcome at New Delhi. The developed countries of both East and West had stated on many occasions that they did not intend to enter into binding agreements within the short course of the Conference. The Soviet bloc refused to accept any responsibility for providing development assistance and insisted on negotiating East-South trade relations on a bilateral basis.<sup>30</sup> The Western states had repeatedly stressed that the very complexity of the problem of economic development, the significant domestic interests of their own it affected, and the overarching need for multilateral cooperation meant that policy-making in UNCTAD had to move slowly and carefully.<sup>31</sup>

This lack of political will on the part of the Western countries to go beyond their one proposal for general preferences coincided with an extremely heavy Conference agenda, a cumbersome organizational setup, and an adverse international climate virtually to preclude the possibility of making more than very limited headway on trade and aid policy at New Delhi.

The substantive deliberations of UNCTAD-II, held from 1 February to 29 March 1968, took place in five Main Committees and three Working Groups;<sup>32</sup> group positions were shaped by simultaneous informal intragroup and intergroup consultations.

The actual results of the Conference may be summarized as follows.

Commodities. In this area the developing countries had lowered their demands since the Geneva Conference. The Charter of Algiers made no reference to the abolition of agricultural protectionism but asked that the developing countries be allocated a substantial share of increments in demand for primary products in the developed countries. The Charter anticipated that these shares would be determined on a country-by-country, commodity-by-commodity basis, through multilateral negotiations. No concrete progress was made on this topic, nor did it prove possible to request special studies on the problem of access to the markets of developed countries for the exports of developing countries.

A resolution called for market stabilization of cocoa and sugar and for further consideration of nine other primary products,<sup>33</sup> but no consensus could be reached on the general principles to guide the negotiation of such specific commodity agreements.<sup>34</sup> Other resolutions in this field dealt with the coordination by UNCTAD of the activities of inter-governmental commodity bodies; the studies underway in the IMF and the World Bank on stabilization of commodity prices; and an outline of a proposal for a guaranteed minimum agricultural income.<sup>35</sup>

Manufactures. The most significant achievement of the Conference was undoubtedly the unanimous agreement in favor of the early establishment of a generalized non-reciprocal and

non-discriminatory system of tariff preferences. The Western states' approval of the concept of preferences marked a major departure from traditional commercial policies based on most-favored-nation treatment, and it clearly implied the recognition of the relatively weak position of the developing countries in world trade. However, the West was unwilling to amend its proposal at New Delhi to bring its offer into line with what the developing countries had requested in the Charter of Algiers. The basic difference between the two viewpoints was on the products to be covered by a preferential agreement. The 1967 OECD paper limited preferences to manufactured and semi-manufactured goods, while the Charter of Algiers provided for an extension to cover processed and semi-processed agricultural products, which receive a high degree of protection in developed countries. The Group of Seventy-Five remained firm in its demands for product coverage and this, coupled with the reluctance of the Western countries to depart from their pre-Conference position, resulted in a resolution<sup>36</sup> leaving important questions unresolved pending their further consideration by a special committee to be established by the Trade and Development Board.

No definite solution was proposed for the relationship between the general scheme of preferences and existing preferential arrangements, a question which involves not only the interests of various groups of developing countries who are associated with the Common Market or the Commonwealth, but

of the major developed traders as well. The position of the Group of Seventy-Five was that the new system should "ensure at least equivalent advantages to developing countries that already enjoy special preferences in certain developed countries."<sup>37</sup> A contributing factor to the change in the United States position on preferences had been its concern over the possibility of a proliferation of limited preferential systems, dividing the world into trading blocs harmful to American export interests. Without agreement on the eventual dismantling of existing preferential arrangements, it is unlikely that a general preferential tariff scheme would receive the support of the United States.<sup>38</sup>

Financing. As early as 1960, the General Assembly recommended that the annual flow of international assistance to the developing countries be increased to 1 per cent of the combined national incomes of the developed countries.<sup>39</sup> This aid target was reaffirmed as a goal of the first United Nations Development Decade,<sup>40</sup> and the 1964 Geneva Conference recommended that each developed country should endeavor to supply annually financial resources amounting to a minimum of 1 per cent of its national income to less developed countries.<sup>41</sup>

The target for the transfer of financial resources was redefined again in New Delhi: each developed country should endeavor to provide annually to developing countries financial resources of a minimum of 1 per cent of its gross national

product at market prices in terms of actual disbursements.<sup>42</sup>

This redefinition of the aid target in terms of GNP rather than national income represented an approximate increase of about 20 per cent in the possible transfer of financial resources.<sup>43</sup> This new commitment was not coupled with any specific date for achievement, although some Western countries such as Sweden, the Netherlands, France and Canada set 1972 or 1975 for their own compliance with this goal. The resolution was addressed to all developed countries, but predictably the Soviet bloc maintained its standard position that it bore no historical responsibility for the economic difficulties of the developing countries and would not, therefore, accept any commitment to meet a fixed target for aid.<sup>44</sup>

The Conference was unable to agree upon specific guidelines for the terms and conditions of aid, nor upon recommendations concerning tied aid, indebtedness, and a multilateral interest equalization fund.<sup>45</sup> Other topics covered by resolutions on financing included the mobilization of domestic resources by developing countries, the study of the flow of private capital to developing countries, the IMF's compensatory finance facility, issues related to international monetary reform, and supplementary financial measures.<sup>46</sup>

With regard to supplementary financing, no progress was made toward defining the principles to govern the operation of the World Bank staff's proposed scheme. The adverse international financial situation and an increasing awareness of the complexity of the scheme had given rise to serious

reservations in a number of donor states. The developing countries, for their part, had shown reluctance to agree to the close consultation and review of export performance by the supplementary financing agency.<sup>47</sup> The Conference did authorize the further consideration of the World Bank proposal by an expanded inter-governmental group, but did not make real headway toward final agreement on the link between domestic need and external assistance.

East-West-South trade. The Conference approved a resolution recognizing the interrelationship between East-West trade and the trade of both developed regions with the developing countries.<sup>48</sup> Accordingly, UNCTAD has been formally authorized to deal with this subject in consultation with the various UN regional economic commissions, particularly the Economic Commission for Europe. Before the fifth session of the Trade and Development Board in 1967, this broadening of UNCTAD's competence had been opposed by the Western group, which may have seen it as a step towards turning the organization into a full-fledged ITO. However, with a lessening of Western fears of such a development and a parallel abatement of East-West tension, opposition faded. At New Delhi discussion of East-West economic relations was conducted with little fanfare and also with little interest on the part of the capitalist countries. The time-worn cold war polemics witnessed at the 1964 Geneva Conference had been replaced by pragmatic Western skepticism about whether the products of the Soviet bloc could



effectively compete in the world market.<sup>49</sup>

The developing countries, for their part, no longer viewed the expansion of East-West trade as potentially detrimental to their own trade interests. Many expressed the view that a higher degree of multilateralism in trade and payments would favor the prospects for greater East-South trade. Their real concern, though, was with the more immediate problems hampering economic relations between socialist and developing countries. The Charter of Algiers called attention in particular to the need for the provision of trade targets in plans of socialist countries, measures to increase and diversify imports of manufactures and semi-manufactures, the granting of preferences by socialist countries, multilateralization of payments, and assurances that goods imported from developing countries would not be re-exported without the consent of the latter. With the exception of the demand to eliminate the margin between import and domestic selling prices of goods imported from developing countries, the Soviet bloc accepted, in qualified form, most of the demands addressed to it at New Delhi.<sup>50</sup>

Other issues. The Conference also adopted without dissent a declaration on trade expansion and regional economic cooperation and integration among developing countries.<sup>51</sup> This declaration recognized that the developing countries must overcome special difficulties, notably balance-of-payments problems, if they wish to move ahead in this field.<sup>52</sup> The

usefulness of this declaration can be judged only after the developing countries have negotiated concrete schemes among themselves and attained more practical experience in dealing with their difficulties.

In the field of shipping, which was considered forbidden territory before the 1964 Conference, UNCTAD has made a real advance. The Trade and Development Board had laid the groundwork for agreement on numerous recommendations, some of them initiating new areas of cooperation among governments and shipping institutions.<sup>53</sup> Although the consensus reached at New Delhi cannot be considered optimal, many formally controversial points were generally accepted, notably in the areas of freight rates and development of merchant marines and port facilities of developing countries.<sup>54</sup> The subject of international shipping agreements, on the other hand, was one on which the Conference was unable to reach a compromise. It was therefore proposed that a working group be established by the Board to review the commercial and economic aspects of transport agreements and to indicate to the UN Commission on International Trade Law what new conventions might be required in this field.<sup>55</sup>

The New Delhi session did not consider the subject of principles and guidelines for a global strategy for development, which had been advanced in the preparatory report of the Secretary-General of UNCTAD.<sup>56</sup> This subject had not been on the agenda, but the General Assembly had expected the Conference to contribute to the formulation of an international

development strategy for the second UN Development Decade. The overall situation was not propitious for the drafting of general principles, and the secretariat refrained from pressing the matter, feeling that "a global strategy without concrete measures would have been another document of pious declarations without any practical consequences."<sup>57</sup>

The expectations of the developing countries were seriously frustrated at New Delhi: "We cannot conceal our profound disappointment with the paucity of results, with the scarcity of commitments, and with the generality of agreements."<sup>58</sup> Many of the Third World delegates saw in the massive migration back to UNCTAD headquarters at Geneva a symbolic meaning, averring that UNCTAD had not only failed to make real progress but was in effect back where it had started from in 1964. Others considered that international conferences, like the great vintages, have good years and bad, and pinned their hopes of the continuing machinery to achieve specific results and to revive the more favorable atmosphere that prevailed before the second session.

The USSR ~~felt~~<sup>felt</sup> no such bitter disappointment. It was well aware that a huge conference of nearly 2,000 delegates could not be a mechanism for producing results in terms of direct changes in trade and aid policy: "UNCTAD is not an organization where commercial deals and financial agreements are concluded. Its purpose is to create a favorable climate for expanding international economic intercourse."<sup>59</sup> The fact

that the East-West dialogue begun the year before in the Trade and Development Board had been sustained at New Delhi meant that the organization had at long last fulfilled its raison d'etre from the Soviet point of view. By 1970 the USSR had come to hail UNCTAD as "the main center where questions of trade between countries with different social systems are considered."<sup>60</sup>

### The Santiago Sequel

Following the second Conference the great bulk of issues left unresolved were consigned for study and deliberation to the Trade and Development Board and eventually to the agenda of UNCTAD-III, convened in Santiago, Chile during April and May 1972. The materials were not yet available at the time of this writing to assess properly the substantive results of the third Conference; however, some general observations of that meeting are in order.<sup>61</sup> Both developed and developing countries had paid much lip service in the Board to the desirability of keeping the agenda limited to issues "mature for settlement" so as to attract the highest level of representation for a short session. However, the original nine-issue "illustrative list" suggested by the new UNCTAD Secretary-General, Manuel Perez-Guerrero,<sup>62</sup> to the August 1970 Board finally emerged as a comprehensive twenty-two--issue list at Santiago. Despite the breadth of the agenda, certain items that have remained central to the organization since its inception automatically dominated the debate at UNCTAD-III.

even though most had failed to "mature" for decision. Among these priority issues were commodity problems, improved access of the developing countries manufactures and semi-manufactures to developed-country markets, tariff preferences, and development aid. Newer demands for restructuring and reforming the international monetary system reflected the unfavorable impact of several Western states' balance-of-payments difficulties upon the developing countries. There was also a strong Southern desire at Santiago to put some teeth into UNCTAD by strengthening its negotiating and operational functions.<sup>63</sup>

In order to present a condensed view of the progress made in the trade and development field since the 1968 UNCTAD Conference and the actions taken at the Santiago Session, four broad economic categories are set out:

-- Limited and incomplete results for commodity trade.

By UNCTAD-III major international commodity agreements existed for only four primary products: tin, coffee, sugar and wheat, the last largely a developed-country export. These agreements together accounted for one-fifth of the total commodity exports of the less developed countries. Nineteen primary products had been selected for special consideration at the 1968 Conference, but UNCTAD had not been able to conclude any agreement for commodities not previously covered. However, the International Sugar Agreement was renewed in 1971 and in early 1972 informal inter-governmental consultations were begun on stabilizing markets for phosphates and

ores. The Santiago session called for the prompt negotiation of a cocoa agreement and adopted another resolution aimed at increasing research and development efforts for natural products facing competition from synthetics and substitutes.

-- Some positive results in the sphere of tariff preferences. At the October 1970 meeting of the UNCTAD Special Committee on Preferences, eighteen Common Market and associated countries agreed to enact a generalized, non-discriminatory system of tariff preferences effective 1 July 1971 for certain exports of developing countries. Later in 1971 four Nordic countries plus Austria, Japan, Ireland, New Zealand, Switzerland, and the United Kingdom put similar schemes into operation. In early 1972 three Eastern European countries--Bulgaria, Czechoslovakia, and Hungary--followed suit.<sup>64</sup> This generalized preference system was the result of six years of difficult negotiations not only between the developed and less developed countries but also within the two groups themselves.<sup>65</sup>

Although the new scheme expanded product coverage to some extent, it generally excluded or limited the concessions on products in which the developing countries have the greatest potential and interest, notably clothing, textiles, and processed agricultural goods. Preferences have become the key test of Northern willingness to assist less developed countries in their development efforts and at Santiago a unanimous resolution urged those developed countries who had

not yet granted preferential treatment to do so by 1973. In the same resolution the Conference established the Special Committee on Preferences as a permanent organ of UNCTAD.

-- No contribution to the problems of development aid and international finance. Little more than one-third of the net the net flow of financial resources to developing countries takes the form of outright grants. The major share-- chiefly government loans, private trade credits, and direct investment--entails repayment. With chronic pressure on their limited reserves, the developing countries must be concerned about the burden of repaying an outstanding debt that had reached a total of nearly \$60 billion by 1970. This sum had increased at an average annual rate of 13 per cent during the first Development Decade, far in excess of the 9 per cent growth rate of developing-country export earnings, from which the debts should be repaid.<sup>66</sup>

The International Development Strategy for the Second Development Decade recommended that each developed country provide financial resources transfers of a minimum net amount of 0.7 per cent of its GNP by 1975 and a 1 per cent aid GNP level by 1980. Only Belgium, the Netherlands, Norway and Sweden have thus far accepted these targets. France considers the levels a little too ambitious, while Germany accepts the levels but not the dates. All other donors reject the very idea of an aid target, let alone prescribed dates. Nevertheless, the third Conference adopted two resolutions in

this area over the dissenting votes of abstentions of both Western and socialist developed countries. The first reaffirmed the aid prescriptions laid down in the Development Strategy, while the second created a special body within UNCTAD to tackle the perennial problems of aid tying and debt servicing.

The developing countries fared little better in an attempt to reform the international monetary system. A resolution recommending compensation for losses incurred by major currency realignments was adopted over the solid dissent of the West. Two other resolutions called on the World Bank to play a greater role in commodity price stabilization and to work out detailed arrangements for the long-debated supplementary finance scheme.

--Hopeful signs for special attention to the problems of the least developed and land-locked countries. Since 1968 this field has emerged from relative obscurity to a position of priority in the work of most of the organizations that form the UN development system. The need to devise special measures to enable least developed and land-locked countries to derive equitable benefits from international development assistance was first expressed in the Algiers Charter and formally recognized at the New Delhi Conference.<sup>67</sup> The Development Strategy included a broad action program to assist these countries in all of UNCTAD's substantive areas of competence. At the Santiago meeting a comprehensive set of measures



and recommendations designed to give the twenty-five poorest countries preferential treatment and aid was the only issue on which the Conference acted unanimously.

On the political front, the need for improvement of UNCTAD's institutional machinery emerged from the deliberations of the second Conference as a subject of major importance. The cumbersome New Delhi session had involved the simultaneous running of a plenary and eight committees, together with some hundred negotiating and geo-political groups, and required over nine hundred and seventy-five meetings during a period of eight weeks. Energies had been dissipated in repetitious debates in the committees and working groups, and it had proved impossible to deal with the extensive agenda seriously and in an orderly fashion. At the close of the second session Dr. Prebisch had suggested that both the size and work load of the continuing machinery be reduced to enable it to be more effective in negotiating selected issues for practical action.<sup>68</sup>

At the Santiago meeting there was general consensus that the Trade and Development Board, its Committees, and special working groups concentrating on specific problems should replace the massive Conference as the most important part of the organization. But Dr. Prebisch's earlier suggestion on streamlining the Board was ignored. Instead a resolution was adopted "without objection" which recommended to the General Assembly that (1) the membership of the Board be increased

from fifty-five to sixty-eight members; and (2) the main Committees be open for participation to all interested member governments, on the understanding that the Board would determine the membership of the Committees on the basis of a list of those countries who had expressed a desire to attend a particular session of one or more of them.

It is highly doubtful that such reorganization schemes can do much in the way of increasing the efficacy of UNCTAD to negotiate concrete multilateral trade and aid agreements. UNCTAD, like any other international organization, depends mainly for its effectiveness on the goodwill of its member governments. The high hopes which were placed on the organization and which have not materialized can only be realized through action by governments as part of a concerted effort. Such action has been frustrated by the intractable nature of trade and development problems and by the lack of a domestic constituency for UNCTAD proposals in most rich nations, rather than by any failure which could be put right merely by organizational reform. At the same time, few would argue that UNCTAD's present framework and group system are a triumph of institutional logic. But if the objective is to enhance and strengthen the standing machinery, it seems unlikely that enlarging an already unwieldy Board will produce the desired results.

These considerations would tend to cast doubt on the wisdom of another Santiago resolution in the political field

which urged the Board to reopen the question of establishing a full-fledged international trade organization. The vote on this resolution was sixty-five in favor, twenty-five against, with six abstentions. It is a safe bet that among the abstainers was the USSR. To be sure, the Soviet spokesmen have argued all along for equipping the Board with greater negotiating powers. But Moscow regards the Board as a "safe" and manageable body, suitable for facilitating an expansion of East-West trade.<sup>69</sup> Soviet press coverage of UNCTAD-III failed to mention once the renewed drive for creating an ITO, most likely because the USSR is no more anxious than the West to see the establishment of a powerful UN agency that would threaten to increase the political leverage of the developing countries.

One other significant political event at the Santiago meeting was the participation of the People's Republic of China. It is too early to tell what impact this will have on UNCTAD. China might conceivably attempt to assert its leadership over the Group of Seventy-Five, chiefly by espousing anti-Soviet as well as anti-Western sentiments and by playing upon racial tension. Moscow has labeled such tactics Peking's "splitting activity":

The idea is simple: to slander the Soviet Union and isolate the national-liberation movement from it and then play up China's importance for the destinies of the developing countries and make it easier for the Mao group to achieve its hegemonic aims.<sup>70</sup>

The Soviets speak from experience. China, insisting that the USSR is "neither an Asian nor an African state,"<sup>71</sup> sought as early as the Bandung Conference of 1955 to remove Afro-Asian solidarity organizations from Soviet influence. One can imagine the Russians grimacing at the prospect of a Peking-led radical Group of Seventy-Five in UNCTAD, particularly so considering that the developing countries are using the organization as an instrument to bring pressure to bear on the USSR as well as the Western powers. The Soviet press, which ignored the substantive results of UNCTAD-III as well as the resurgence of support there for an ITO, nevertheless devoted considerable coverage to Peking's posture at the Santiago meeting:

Peking's claims [to be a member of the Third World] are not only groundless but untenable. Despite her relative economic backwardness, China is one of the largest powers in the world, with the status of a permanent member of the UN. While presenting China as a 'poor and developing country' the Peking leadership has been feverishly building up her nuclear missile potential at the expense and to the detriment of the Chinese people's vital interests...At international forums and other similar gatherings involving representatives of states from the three continents, Chinese spokesmen try to substantiate the need to 'rally together and take joint action' against the 'threat from the two superpowers.'<sup>72</sup>

A more plausible scenario is that Peking, despite its rhetoric, recognizes that the less developed countries are so divided by their divergent political and economic interests and by the special relations many enjoy with particular

developed countries that they are totally unsusceptible to Chinese, or for that matter Yugoslav, Brazilian or Indian general leadership.<sup>73</sup> Moreover, after nearly a decade the hopes the developing countries placed on multilateral action have proved somewhat illusory, and they may tend to rely on more limited arrangements with their principal trading partners to the North. At any rate, one political development for UNCTAD is inevitable: a wave of Sino-Soviet rivalry is about to break just at the time that Soviet-American polemics seem to have ebbed.

## NOTES TO CHAPTER V

<sup>1</sup>Richard N. Gardner, "The United Nations Conference on Trade and Development," in Richard N. Gardner and Max F. Millikan (eds.), The Global Partnership: International Agencies and Economic Development (New York: Praeger, 1968), pp. 99-130, at 124.

<sup>2</sup>Isaiah Frank, "New Perspectives on Trade and Development," Foreign Affairs, vol. 45, no. 3 (April 1967), pp. 520-540, at 522.

<sup>3</sup>Supplementary Financial Measures: A Study Requested by the United Nations Conference on Trade and Development (Washington, D.C.: International Bank for Reconstruction and Development, 1965).

<sup>4</sup>Basic Instruments and Selected Documents, Thirteenth Supplement (Geneva: General Agreement on Tariffs and Trade, 1965), pp. 2-10.

<sup>5</sup>The Kennedy Round: Preliminary Evaluation of Results, with Special Reference to Developing Countries, Report by the Secretary-General of UNCTAD, UN Document TD/6, pp. 1-3.

<sup>6</sup>John W. Evans, "The General Agreement on Tariffs and Trade," in The Global Partnership, cited above at 1, pp. 72-98, at 90.

<sup>7</sup>Malcolm Subhan, "Developing Countries and the Multilateral Approach in Trade Negotiations," Revue du Sud-Est Asiatique et de l'Extreme-Orient (Brussels), no. 1 (1969), pp. 41-62, at 44.

<sup>8</sup>Manubhai Shah, Developing Countries and UNCTAD (Bombay: Vora and Company, 1968), pp. 3-6.

<sup>9</sup>Kazimir Vidas, "The Success or Failure of UNCTAD?," Review of International Affairs (Belgrade), vol. XX, no. 473 (20 December 1964), pp. 25-26.

<sup>10</sup>"Current Developments," East Europe, vol. 13, no. 7 (July 1964), p. 47.

<sup>11</sup>On the group system see: Branislav Gosovic, "UNCTAD: North-South Encounter," International Conciliation, no. 568 (May 1968); and "Improvement of the Institutional Machinery and the Methods of Work: Draft Resolution on Institutional Arrangements Remitted by the Conference," Report by the UNCTAD secretariat, UN Document TD/B/173.

<sup>12</sup>Thomas Hovet, Jr., Bloc Politics in the United Nations (Cambridge: Harvard University Press, 1960), p. 112.

<sup>13</sup>Report by the Special Group on Trade with Developing Countries of the OECD, UN Document TD/56.

<sup>14</sup>UN, General Assembly Resolution 2186 (XXI).

<sup>15</sup>Robert S. Walters, American and Soviet Aid: A Comparative Analysis (Pittsburgh: University of Pittsburgh Press, 1970), pp. 178-179. See Chapter I of this study for the background of the UN Capital Development Fund.

<sup>16</sup>Gardner, cited above at 1, p. 119.

<sup>17</sup>The Significance of the Second Session of the United Nations Conference on Trade and Development, Report by the Secretary-General of UNCTAD, UN Document TD/96/Rev.1, p. 9.

<sup>18</sup>UNCTAD, Report of the Trade and Development Board (Fifth Session), General Assembly Official Records (Twenty-Second Session), Supplement No. 14, pp. 17-20.

<sup>19</sup>Report of the Committee on Invisibles and Financing Related to Trade, UN Document TD/B/118/Rev.1, Annex II.

<sup>20</sup>Report of the Special Group...., cited above at 13.

<sup>21</sup>See: "Trade and Economic Progress," New Times (Moscow), no. 5 (1968), pp. 10-13.

<sup>22</sup>The level of representation at the Algiers conference was actually quite low. Only twenty-six of the sixty-nine delegations present were headed by ministers. The Latin American countries were represented at an especially low level: none of their delegations was headed by a member of the government. The reason for this was given by the Brazilian Minister of Foreign Affairs, who on the eve of the opening stated that he would not take part because the meeting was expected to be anti-American in character. Allegedly, the U.S. State Department put some pressure on

its Southern neighbors not to allow the Algiers gathering become "an economic Bandung." See: Y. Yelutin, "Rehearsal Before the Delhi Conference," International Affairs (Moscow), no. 1 (1968), pp. 38-42, at 39-40.

<sup>23</sup>The Bangkok Declaration of the Ministerial Meeting of the ECARE Developing Countries, Group of Seventy-Seven Document MM/77/I/Misc. 3.

<sup>24</sup>The Charter of Tequendama, Group of Seventy-Seven Document MM/77/I/Misc. 7.

<sup>25</sup>African Declaration of Algiers, Group of Seventy-Seven Document MM/77/I/Misc. 9.

<sup>26</sup>Charter of Algiers, UN Document TD/38/Add.1-2. Annex I to the Charter contains the reports of the four main committees of the ministerial meeting; Annex II contains the report of the Working Group on Special Measures to be taken in Favor of the Least Developed of the Developing Countries.

<sup>27</sup>See: Mirceta Cvorovic, "Algerian Meeting of Ministers from the Seventy-Seven Developing Countries," Review of International Affairs (Belgrade), vol. XVIII, nos. 416-417 (5-20 August 1967), pp. 17-19.

<sup>28</sup>See: Yelutin, cited above at 22, p. 40, and Gosovic, cited above at 11, pp. 18-19.

<sup>29</sup>See: "Growth, Development Finance, and Aid--Issues and Proposals," Study by the UNCTAD secretariat, UN Document TD/7, pp. 1-5.

<sup>30</sup>See the opening statement by the Soviet representative at UNCTAD-II, UN Document TD/SR.46. See also A. Zakharov and L. Lobanov, "The U.N. and the Urgent Problems of the Developing Countries," International Affairs (Moscow), no. 5 (1968), pp. 30-35.

<sup>31</sup>See the statement on the New Delhi agenda by the representative of Canada in the Second Committee of the General Assembly, UN Document A/C.2/SR.1159.



<sup>32</sup>Committee I on commodity problems and policies; Committee II on expansion and diversification of export of manufactures and semi-manufactures of the developing countries; Committee III on growth, development finance and aid; Committee IV on problems of developing countries in regard to invisibles including shipping; Committee V on trends and problems in world trade and development, including East-West-South trade; Working Group I on the world food problem, and the transfer of technology; Working Group II on trade expansion and economic integration among the developing countries, and special measures to be taken in favor of the least advanced among the developing countries; and Working Group III on special problems of land-locked countries.

<sup>33</sup>UNCTAD Resolution 16(II). The thirty-five resolutions and declarations adopted at UNCTAD-II are contained in Proceedings of the United Nations Conference on Trade and Development, Second Session, vol. I, Annex I (New York: United Nations, 1968), pp. 27-57. Further references to the five-volume edition of UNCTAD-II documents and reports will be cited as Proceedings, UNCTAD-II, vol. I, II, etc.

<sup>34</sup>UNCTAD Resolution 17(II) provided that "A General Agreement on Commodity Arrangements," UN Document TD/30 drafted by the UNCTAD secretariat be sent to governments for comments.

<sup>35</sup>UNCTAD Resolutions 18(II) - 20(II).

<sup>36</sup>UNCTAD Resolution 21(II).

<sup>37</sup>UN Document TD/II/C.2/L.5.

<sup>38</sup>See: Sidney Weintraub, Trade Preferences for Less-Developed Countries (New York: Praeger, 1967), pp. 133-134.

<sup>39</sup>UN, General Assembly Resolution 1522 (XV).

<sup>40</sup>UN, General Assembly Resolution 1711 (XVI).

<sup>41</sup>UNCTAD Resolution A.IV.2, as contained in Proceedings, UNCTAD-I, vol. I, p. 144.

<sup>42</sup>UNCTAD Resolution 27(II).

<sup>43</sup>The Significance of the Second Session..., cited above at 17, p. 4.

<sup>44</sup>Report of the Third Committee, Proceedings, UNCTAD-II, vol. I, pp. 282-283.

<sup>45</sup>UNCTAD Resolution 29(II).

<sup>46</sup>UNCTAD Resolutions 28(II), 30(II) - 33(II).

<sup>47</sup>See the final report of the Intergovernmental Group on Supplementary Financing, UN Document TD/33.

<sup>48</sup>UNCTAD Resolution 15(II).

<sup>49</sup>See the remarks by the representative of the United States, UN Document TD/II/C.5/SR.13.

<sup>50</sup>See the remarks by the representative of the USSR, UN Document TD/II/C.5/SR.11; and E. Shershnev and M. Pankin, "Delhi Conference," International Affairs (Moscow), no. 4 (1968), pp. 32-37, at 35-37. Outside of the Conference hall the Soviets deplored the fact that the Algiers Charter maintained the North-South formula and that it made no reference to East-West trade reforms. See: A. Zakharov and L. Lobanov, cited above at 30 pp. 30-32.

<sup>51</sup>UNCTAD Resolution 23(II).

<sup>52</sup>See the report of Working Group II, Proceedings, UNCTAD-II, pp. 359-373.

<sup>53</sup>UNCTAD Resolutions 2(II), 4(II), 5(II), and 13(II).

<sup>54</sup>UNCTAD Resolutions 3(II), 7(II), and 12(II).

<sup>55</sup>UNCTAD Resolution 14(II).

<sup>56</sup>Towards a Global Strategy for Development, Report by the Secretary-General of UNCTAD, UN Document TD/3/Rev.1.

<sup>57</sup>The Significance of the Second Session..., cited above at <sup>17</sup>, p. 8.

<sup>58</sup>See the closing statement by the Chairman of the Group of Seventy-Five, UN Document TD/SR.79.

<sup>59</sup>Lev Stepanov, "Summing Up," New Times (Moscow), no. 15 (April 1968), pp. 10-13, at <sup>13</sup>.

<sup>60</sup>B. Pichugin, "East-West Economic Relations," International Affairs (Moscow), no. 11 (1970), pp. 40-47, at 41.

<sup>61</sup>Unless otherwise cited, the materials for this section were culled from the UN Monthly Chronicle, vol. IX (1972); and the "Report of the Secretary-General on the Work of the Organization, 16 June 1971-15 June 1972," General Assembly Official Records (Twenty-Seventh Session), Supplement No. 1, UN Document A/8701, pp. 158-168.

<sup>62</sup>A Venezuelan diplomat with long UN experience, Perez-Guerrero was appointed Secretary-General of UNCTAD in March, 1969 following Dr. Prebisch's early retirement due to failing health. Perez-Guerrero's particular talents are those of an administrator rather than those of a prophet. His leadership should tend to upgrade the role of the secretariat from having been a rather passive instrument under the personal control of Prebisch and to give it a more orthodox, neutral stance instead of being an active interest articulator for the Group of Seventy-Five.

<sup>63</sup>On this point see: Mirceta Cvorovic, "UNCTAD-III in the Offing," Review of International Affairs (Belgrade), vol. (XXII), no. 505 (20 April 1971), pp. 21-23.

<sup>64</sup>See UN Document TD/B/C.5/34/Add.1-5.

<sup>65</sup>For the background, see: "Issues Before the 24th General Assembly," International Conciliation, no. 574 (September 1969), pp. 136-138.

<sup>66</sup>Review of International Trade and Development, 1970, Report by the UNCTAD secretariat (New York: United Nations, 1970), p. 7.

<sup>67</sup>UNCTAD Resolution 24(II).

<sup>68</sup>The Significance of the Second Session..., cited above at 17, pp. 10-12.

<sup>69</sup>Val Zorin and I. Ivanov, "Geneva: Some Lessons and Conclusions," Mirovaya Ekonomika i Mezhdunarodnyye Otnosheniya / World Economy and International Relations (Moscow), no. 8 (1964), pp. 75-84, at 80.

<sup>70</sup>M. Kapitsa, "National Liberation and the Mao Group's Splitting Activity," International Affairs (Moscow), no. 7 (1968), pp. 10-17, at 12.

<sup>71</sup>"Premier Chou on China's Stand on Viet-Nam and Afro-Asian Conference," Peking Review, vol. 9, no. 38 (17 September 1965), p. 8.

<sup>72</sup>G. Apalin, "Peking and the 'Third World,'" International Affairs (Moscow), no. 12 (1972), pp. 28-34, at 29 and 31. See also V. Tybakov, "China in the United Nations: A Barren Policy," ibid., no. 3 (1973), pp. 48-52.

<sup>73</sup>At the two-week Lima Conference of the Group of Seventy-Five in October, 1971 to prepare for UNCTAD-III, the representatives of ninety-six developing countries excluding China produced a Declaration that succeeded only in papering over their sharp differences. New York Times, 9 November 1971, p. 3.

## CHAPTER VI

### RECENT TRENDS IN EAST-SOUTH TRADE

Mammoth, contentious, allegedly economic UNCTAD Conferences will not resolve the problems between rich and poor nations without a more favorable international environment stemming from reassessments of national approaches to trade and development cooperation. UNCTAD can, of course, sometimes exert significant influence on its environment; indeed, it is an organization whose major function is to change the general philosophy and ground rules of the international economic system so as to favor the less developed countries. But during its relatively brief existence UNCTAD has by and large mirrored rather than molded the attitudes and actions of its member states. To evaluate the potentialities and limitations of UNCTAD as a development institution, it is therefore helpful to switch perspectives and focus on these all-important national policies of trade and aid. This short chapter surveys recent patterns and innovations in trade relations between the developing and the socialist countries.

#### Recent Trends, 1955-1970

During the 1955-1965 period trade between the Soviet bloc and the developing countries formed one of the most dynamic sectors of world trade. It nearly doubled every five years (see Table I). Exports from the developing

TABLE I

Soviet Bloc Trade With Developing Countries, 1955-1970  
(in millions of dollars)

<u>Item</u>	<u>1955</u>	<u>1960</u>	<u>1965</u>	<u>1966</u>	<u>1967</u>	<u>1968</u>	<u>1969</u>	<u>1970</u>
Exports...	650	1430	3390	3914	4276	4612	5069	5729
Imports...	610	1402	2796	2954	2813	2961	3212	3945
Turnover...	1260	2832	6186	6868	7089	7513	8281	9674

Source: Adapted from UN Documents TD/18, Annex, Table 1; and TD/B/359, Table 7. Figures are modified to include the trade of Asian centrally-planned economies within the developing-country group.

countries to the socialist countries rose from \$610 million in 1955 to \$1.4 billion in 1960, and to nearly \$2.8 billion in 1965 at an average annual growth rate of 15 per cent. The increase in the developing countries' imports from the socialist countries was even greater--from \$650 million in 1955 to \$1.4 billion in 1960 and \$3.3 billion in 1965, an average growth rate of 18 per cent a year. This was a period of relatively easy and fast trade expansion on the basis of latent export potential and import needs. Following a deceleration in the mid-1960's due mainly to a stagnation in exports from Southeast Asia, East-South trade regained its momentum by 1969 and rose 21 per cent in 1970 to reach a total trade turnover of \$9.6 billion.

Trade between the developing countries and the USSR accounted for most of this expansion, while their trade

with other socialist countries has shown varied results. For example, during the 1960-1968 period Bulgaria and Poland increased considerably their exports to the developing countries, without matching increases in exports. On the other hand, Czechoslovakia and the German Democratic Republic increase more their imports from, than exports to, the developing countries.<sup>1</sup>

Since 1963 the USSR has maintained a higher level of trade with the developing countries than have the East European states as a group. Up to 1965 the Soviet margin averaged about \$400 million annually, but in more recent years it has increased to nearly \$1 billion a year. Czechoslovakia, which had fifty-six trade agreements with developing countries in 1970, clearly ranked first among the East European countries, accounting for about one-third of their total trade with the developing countries. Poland and East Germany have vied for second place among the East European traders, each representing roughly one-fifth of this trade. Romania, Hungary, and Bulgaria, in that order, have followed in importance.<sup>2</sup>

The Soviet bloc on the whole has consistently maintained a favorable net trade balance with the developing countries since 1960. Moreover, this imbalance grew increasingly severe until 1968. As Table I demonstrates, in 1965 the socialist group had a net favorable balance

of about \$600 million in its trade with the developing countries; by 1968 this figure had trebled to \$1.8 billion. Thus, despite communist claims in UNCTAD of providing "mutually advantageous and equitable" trade opportunities for the developing countries, there has been a persistent East-South trade gap. Since 1968, however, this gap has narrowed somewhat and in 1970 socialist imports from the developing countries increased 20 per cent, while socialist exports to these countries increased only by 15 per cent.<sup>3</sup>

Although the overall expansion in East-South trade is impressive, it should not be overrated. On the one side, the share of the developing countries in the total trade of the Soviet bloc in 1968 was only 14.6 per cent, whereas 21 per cent of the bloc's trade was conducted with the West.<sup>4</sup> In the case of the USSR, the developing countries represented 23 per cent of its total commerce in that year, but among the East European states only Czechoslovakia directed as much as 14 per cent of its trade to the developing countries. On the other side, the share of the socialist bloc in the total trade of the developing countries amounted to barely 6 per cent in 1968; by comparison, the West accounted for roughly three-quarters of this trade while intra-developing-country commerce represented about one-fifth.<sup>5</sup>

Of perhaps greater significance than the percentage



distribution of trade among the three groups of countries is the fact that Soviet bloc trade is centered on relatively few developing countries--the United Arab Republic in Africa, India in Asia, Yugoslavia in Europe, and Cuba in Latin America. These four countries together have continued since 1961 to represent more than one-half of the total East-South trade turnover. The concentration is also reflected for a number of developing countries in the volume of their trade with the Soviet bloc which during the period under review constituted the designation for more than one-third of all exports from Cuba, Syria, the United Arab Republic, and Yugoslavia. For another group of countries--Afghanistan, Argentina, Burma, Cambodia, Ceylon, Ghana, India, Indonesia, Malaya, Mali, Morocco, Pakistan, Sudan, and Uganda--the Soviet bloc absorbed between one-tenth and one-third of their exports, a share which accounted for nearly three-fourths of the total increase in their trade in this category.<sup>6</sup>

By geographic region the pattern of socialist exports to the three developing continents reveals certain important differences. Latin America, mainly Cuba, accounts for nearly one-half of all primary commodities exported from the Soviet bloc to the developing countries, whereas the shares of Asia and Africa are relatively small. On the other hand, Latin America receives less than one-fifth of

all socialist machinery and equipment exports to the developing countries, while the shares of Asia and Africa are as high as 30 and 42 per cent respectively. The relatively high concentration on machinery exports is associated with the fact that a major part of the credits granted by the Soviet bloc to the developing countries is for complete plants and installations. Exports in this category to the developing countries have increased rapidly in recent years; for example, the USSR raised exports of complete plants from \$68 million in 1960 to \$304 million in 1965 to \$364 million in 1970.<sup>7</sup>

Three commodities--foodstuffs, textile fibers, and natural rubber--predominated in the exports of the developing countries to the socialist countries in 1960; together they accounted for nearly 80 per cent of the total for that year. The combined share of these three commodities has, however, declined to under 55 per cent of the total in 1965. On the other hand, the value of the socialist countries' imports of all other commodities except for those three rose nearly four-fold between 1960 and 1965, suggesting that the expansion in the imports of the socialist countries from the developing countries was associated with a significant broadening of the commodity base. The exports of manufactures and semi-manufactures from the developing countries to the Soviet bloc have

grown even faster than those of primary commodities. They were negligible in 1955; they had risen to around \$192 million by 1962, and to \$558 million by 1965--nearly one-fifth of the total developing-country trade in this category.<sup>8</sup>

The characteristic features of East-South trade since 1955 can be summarized as follows: (1) it is smaller than the other principal flows of world trade; (2) it has grown rapidly but at an uneven pace; (3) it is heavily concentrated on relatively few developing countries; (4) its commodity base has broadened; and (5) it has increased in non-primary sectors in both directions.

### Emerging Patterns

As was shown in Chapters I and II, the "war economy" measures undertaken by the USSR and the East European countries during the postwar period had begun to lose their original force by the early 1950's. Reconstruction and rapid industrialization had been carried out with little attention to the problems of agriculture and existing resources, or to comparative costs. Serious shortages of raw materials in East Europe, combined with the need to improve consumption standards in the area, gave a powerful impetus to the reappraisal of former policies of national and regional autarky. Inasmuch as the slackening in industrial expansion facilitated a large

export capacity of capital goods and manufactures, conditions for trade with primary-producing countries were enhanced. These circumstances were reflected in the striking growth rate of East-South trade after 1955.

A number of new issues for the further broadening and expansion of socialist trade with the developing countries have emerged since the mid-1960's. It has become evident that in all but the least advanced East European countries industrial patterns are no longer suited to existing natural and economic conditions. The socialist countries, faced with a persistent lag in their own rates of growth, have shown an increasing awareness of the uses and benefits of international specialization, and foreign trade is becoming a key policy factor. Unlike the earlier approach during the 1950's of importing only "essentials" not available within the national economy, this new policy requires a systematic and wide utilization of the international division of labor. The advantages accruing from a more intensive pursuit of foreign trade opportunities have commanded increasing attention in both official and scholarly discussions within the bloc. The need for rational structural changes in national economies appeared among the priorities of the socialist plan directives for 1966-1970, with an emphasis on greater efficiency and reduced costs through international trade cooperation.<sup>9</sup>

Changes are beginning to materialize and produce results. In this light, the late 1960's is often viewed as a watershed in the economic policies of the socialist countries, the new features of which are discernible in the plan directives for 1971-1975.<sup>10</sup>

The expansion of East-South trade is specifically encouraged by such factors as the overall shortages of fuels and certain commodities within East Europe; the reduced costs engendered by replacing imports of some raw materials with imports of processed and semi-processed products; the rising demand for foodstuffs and consumer goods in the socialist countries; and the transfer of decision-making to levels at which commercial criteria weigh more heavily.<sup>11</sup> In general, the trend for the bloc economies is to overcome the deficits in some resources by recourse to cheaper and speedier external supplies, and to avoid the heavy cost of additional investment in expanding domestic production in some spheres by importing manufactures and semi-manufactures from developing countries.

The main tendency in the recent development of East-South trade and economic cooperation has been an extension beyond the scope of traditional commercial exchange to the sphere of cooperation in production. Some East European states proposed as early as 1962 that the developing countries abandon autarkical economic development and take

advantage of the opportunity to engage in specialization and a partial international division of labor with the socialist bloc.<sup>12</sup> The Soviet Union, perhaps reluctant to publicize its desire for a faire return from foreign aid, followed suit only after 1965. Through production-cooperation agreements a socialist country assists a developing country in constructing and commissioning new plant facilities for the production of certain commodities and manufactures, provided that the developing country is well endowed for the production of these goods and that imports of these goods will increase the efficiency of overall production patterns in the domestic socialist economy. Unlike the Soviet bloc's technical assistance program from the mid-1950's to the mid-1960's which aimed almost exclusively at infrastructure and import-substitution schemes, production-cooperation agreements involve the setting up of export-oriented enterprises.

Soviet economist L. Zevin spelled out the rationale behind a partial East-South division of labor in this way:

If the advantages of the international division of labor are utilized, the socialist countries may find it more profitable to import a number of important items than to produce them at home (or to expand the production of them). If a stable source for the receipt of an important item is ensured, production cooperation and the foreign trade brought about by such cooperation may, with certain reservations regarding economic results, be regarded as a branch of the national economy of the importing country. And their effectiveness may be assured on the basis of criteria employed for the selection of variants

of economic solutions inside the given socialist country.<sup>13</sup>

Thus, if a developing country can produce an item cheaper than a socialist country, the necessary capital investment would be made through implementation of a production-cooperation agreement. The developing country would retain sole ownership of the enterprise financed by a socialist country's credit, and the credit would as a rule be repaid in the form of quotas from production of the constructed enterprise.<sup>14</sup> However, unlike other Soviet bloc development assistance in the past, these agreements would require the recipient to continue exports of production from the enterprise to the donor socialist country after the credit had been entirely repaid.

By 1970 a network of production-cooperation agreements covered all socialist countries of East Europe (except Albania) and at least thirty-one developing countries, altogether 171 cases of industrial cooperation being recorded (see Table II). East Germany, Czechoslovakia, and Romania are the most active in this field among the bloc countries, whereas India is dominant among the developing countries. According to the Indian Investment Center, 140 "collaboration" agreements with the Soviet bloc had been concluded by 1970. Among them, UNCTAD considers 60 per cent as involving direct industrial cooperation.<sup>15</sup> The second place is held by the United Arab Republic with

TABLE II  
The Network of East-South Industrial Cooperation Agreements

Partners	Bulgaria	Czechoslovakia	Hungary	GDR	Poland	Romania	USSR	TOTAL
India <sup>a/</sup>	3	18	10	42	13	2	4	92
UAR	-	7	2	3	3	3	5	23
Algeria	1	2	-	1	-	1	3	8
Guinea	1	-	1	-	-	1	2	5
Iran	-	-	-	-	-	2	2	4
Pakistan	-	-	1	-	2	-	1	4
Colombia	-	1	-	-	1	1	-	3
Nigeria	-	-	3	-	-	-	-	3
Morocco	1	-	-	-	-	2	-	3
Others <sup>b/</sup>	2	9	2	-	1	10	2	26
TOTAL	8	37	19	46	20	22	19	171

a/ Taking into account only two out of every three "collaboration" agreements.

b/ Afghanistan, Brazil, Ceylon, Mexico, Somalia, Syria, Tunisia: two agreements; Cambodia, Central African Republic, Ghana, Ethiopia, Indonesia, Iraq, Jordan, Kenya, Lebanon, Peru, Saudi Arabia, Senegal, Uruguay, Venezuela, Zambia: one agreement per country.

Source: UN Document TD/B/350, Table 1.



twenty-three such agreements, and the third by Algeria with eight. As regards other developing countries, most of them are involved in no more than one or two agreements each.

The main sectors of industrial cooperation are mining, chemical, rubber, pharmaceutical, petrochemical industries, heavy and agricultural engineering, metallurgy, textile, leather, food and consumer goods industries, and construction. In addition, there is a growing diversification of production within the framework of these industrial cooperation agreements. For example, turbines, machine tools, mining and telecommunications equipment have appeared on India's production lists since the late 1960's. East Germany and India have begun co-producing circuit breakers and transformers. Starting with vitamins, Hungary and India have proceeded with the co-production of a variety of pharmaceutical drugs. An Iranian-Romanian agreement for cooperation in the production of tractors was later extended to agricultural machinery.

Moreover, in a number of cases industrial cooperation takes place on a triangular basis, involving partners from socialist and developing countries and private Western transnational corporations. For example, an oxygen-producing station was constructed in India by Czechoslovakia and Italy. Hungarian-made tractors for rice plantations

in Asia and the Far East are equipped with engines produced in India under licenses from Western Europe. Romania together with three French companies participated in the construction of a refinery in India. The total number of these cases is about twenty. The bulk of them are on an ad hoc basis, binding the partners only to execute a single particular project. One can see, however, a trend towards transforming these sporadic cases into long-term arrangements for commercial activity in this field, with an agreement between a private Western company and a socialist country at the core, and a changing set of third partners from developing countries to be formed "on the spot." Romania and France, Hungary and France, and Poland and Switzerland appear to be headed for such joint ventures.<sup>16</sup>

### Prospects

A number of estimates of the prospects for trade between the socialist and the developing countries, based on trends of the 1955-1960 period, were submitted to the first UNCTAD Conference,<sup>17</sup> but no real work has been done in this field since then. Despite their contradictory character, these early estimates agreed that East-South trade will remain one of the most dynamic sectors in world trade. As for quantitative forecasts of trade between the two groups of countries, we can only suggest extremely rudimentary figures here. The UN Economic Commission for

Europe had suggested that if the share of the developing countries in the imports of the Soviet bloc remained unchanged from that of the early 1960's--about 10 per cent--the rise in the value of this trade might reach more than \$5 billion by 1980.<sup>18</sup> This flow of trade actually increased over the past decade; the developing countries represented 10.8 per cent of socialist imports in 1965 and 11.8 per cent in 1970.<sup>19</sup> The ECE import prediction thus appears low.

More in line with recent growth rates in East-South trade was a forecast by a group of Polish economists in 1967. They calculated that imports into the socialist countries from the developing countries might reach \$7-\$8 billion and exports \$8-\$9 billion by 1980; of the total sum of \$16 billion (the average between \$15 billion and \$17 billion) the USSR was expected to account for about \$11 billion and the other socialist states for about \$5 billion.<sup>20</sup> At the time of this writing there appear to be no recent and reliable indices for predicting future growth rates or patterns in East-South trade. It should be emphasized, however, that the possibility of achieving a value of \$16 billion in trade by 1980 depends heavily on the rate of growth of national income in both the socialist and the developing countries, and perhaps most importantly, on the active shaping of the new trends witnessed since 1966.

NOTES TO CHAPTER VI

<sup>1</sup>Review of Trade Relations Among Countries Having Different Economic and Social Systems, Report by the UNCTAD secretariat, UN Document TD/B/359/Corr.1, p. 25.

<sup>2</sup>Review of Trade Relations Among Countries Having Different Economic and Social Systems, Report by the UNCTAD secretariat, UN Document TD/B/251, Annex, Tables A-2, A-4, A-5, A-8, A-10; Miroslav Pravda et al., Trade Prospects in Socialist Countries: Czechoslovakia--Conditions, Policies, Approaches, UN Document TD/B/305, Annexes V and VI.

<sup>3</sup>UN Document TD/B/359/Corr.1, cited above at 1, Table 7.

<sup>4</sup>UN Document TD/B/251, cited above at 2, Annex, Table A-1.

<sup>5</sup>UN Document TD/B/359/Corr.1, cited above at 1, Table 7.

<sup>6</sup>Review of Trade Relations Among Countries Having Different Economic and Social Systems, Report by the UNCTAD secretariat, UN Document TD/18, p. 9.

<sup>7</sup>Dr. Lev L. Klochkovsky, Trade Prospects in Socialist Countries: Union of Soviet Socialist Republics--Conditions, Policies, Approaches, Study by the Scientific Research Institute of the Ministry of Foreign Trade of the USSR, UN Document TD/B/303, p. 17.

<sup>8</sup>UN Document TD/18, cited above at 6, p. 10.

<sup>9</sup>For the complete text of the USSR's economic plan directives for 1966-1970, see: Pravda, 20 February 1966, pp. 1-6, as contained in The Current Digest of the Soviet Press, vol. XVIII, no. 7 (9 March 1966), pp. 3-8+, and no. 8 (16 March 1966), pp. 3-13. Soviet economic reforms and prospects for expanded trade with developing countries are further detailed in Klochkovsky, cited above at 7. For a survey of the East European economies and their foreign trade during the 1966-1970 period, see: Review of Trade Relations Among Countries Having Different Economic and Social Systems, Report by the UNCTAD secretariat, UN Document TD/B/307.

<sup>10</sup>Hertha W. Heiss, "The Soviet Union in the World Market," New Directions in the Soviet Economy, Studies Prepared for the Subcommittee on Foreign Economic Policy of the Joint Economic Committee, 89th Congress, 2nd Session, 1966, pp. 919-932; and L. Sirc, "Changes in Communist Advice to Developing Countries," The World Today (Royal Institute of International Affairs), vol. 22, no. 8 (August 1966), pp. 326-335. Sirc believes that the 1964 UNCTAD Conference was a turning point in Soviet bloc trade policy towards developing countries. For the complete text of the USSR's economic plan directives for 1971-1975, see: Pravda, 14 February 1971, pp. 1-5, as contained in The Current Digest of the Soviet Press, vol. XXIII, no. 6 (9 March 1971), pp. 1-12, and no. 7 (16 March 1971), pp. 6-16. For a general report on Soviet and East European economic development and foreign trade plans for 1971-1975, see: UN Document TD/B/359/Corr.1, cited above at 1.

<sup>11</sup>On the last point, see: The Decision-Making Process in Respect of Imports in Selected Socialist Countries of Eastern Europe (The Interdependence of Central Management and End-Users), Study prepared by the UNCTAD secretariat, UN Document TD/B/341.

<sup>12</sup>See Chapter IV, note 61.

<sup>13</sup>L. Zevin, "The Mutual Advantages of Economic Cooperation Between the Socialist and the Developing Countries," Voprosy Ekonomiki /Problems of Economics/ (Moscow), no. 2 (1965), pp. 72-80, at 74.

<sup>14</sup>See the memorandum on production-cooperation agreements submitted by Romania to the 1964 UNCTAD Conference, Proceedings of the United Nations Conference on Trade and Development, vol. V (New York: United Nations, 1964), pp. 358-359.

<sup>15</sup>Industrial Cooperation in Trade Between Socialist Countries of Eastern Europe and the Developing Countries, Study by the UNCTAD secretariat, UN Document TD/B/350, p. 14.

<sup>16</sup>Ibid., pp. 20-21.

<sup>17</sup>See: Past Trade Flows and Future Prospects for Trade Between the Centrally-Planned Economies and Developing Countries, Study by the Secretariat of the UN Economic Commission for Europe, Proceedings, UNCTAD-I, cited above at 14, vol. VI, pp. 170-237; "Prospects for the Development of the Foreign Trade of the USSR," ibid., vol. VI, pp. 38-40.

<sup>18</sup>Past Trade Flows and Future Prospects..., cited above at 17, p. 224.

<sup>19</sup>UN Document TD/B/359/Corr.1, cited above at 1, Table 2.

<sup>20</sup>Gospodarska Planowa (Warsaw), no. 4 (1967), cited in UN Document TD/B/238/Rev.1, p. 35.

## CHAPTER VII

### CONCLUSIONS

The convening of the 1964 United Nations Conference on Trade and Development was widely heralded as a milestone on the road to a global partnership of rich and poor nations. Whether it lived up to that billing will long be debated, but it was certainly the most important diplomatic event for the developing countries since the founding of the United Nations. It focused world attention on their grievances and needs and gave birth to new machinery for promoting multilateral development efforts. For the first time the whole gamut of trade and aid policies, objectives, and organizational arrangements could be examined systematically in a UN forum and exposed to the scrutiny of the international community. A long-term process of restructuring the present world economic order was given institutional setting and impetus.

But the past several years have not been propitious for international development initiatives. The difficulties of recognizing and dealing with the need for systemic reforms in the trade and aid relationships between rich and poor nations are persistent obstacles to effective international policies for development. Negotiations over these policies have been further hampered by important short-term factors: the Vietnam War, a world monetary crisis of serious proportions, and budgetary and balance-of-payments

difficulties in two major aid donors, the United States and the United Kingdom. It was against the adverse circumstances of both a short- and a long-term nature that the continuing machinery of UNCTAD, the Trade and Development Board and its Committees, became engaged in the long and arduous task of negotiating the great economic issues raised but left unresolved at the Geneva Conference.

During the first year or so of UNCTAD's existence the inevitable growing pains of a new organization were perhaps sufficient to explain its lack of real progress toward elaborating and implementing a global strategy for development on the basis of the Geneva recommendations. However, as the intractability of the problems became more evident, and when the 1968 and the 1972 Conferences both failed to make substantial headway on the major issues placed before them, it could clearly be seen that the lack of positive action within UNCTAD was not merely a reflection of prevailing circumstances. Rather, the developing countries had good reason to look critically at the whole idea of the global approach to development which underlay UNCTAD. Mammoth, unwieldy, stormy conferences cannot be a mechanism for reconciling the divergent economic interests of developed and less developed countries. The New Delhi and Santiago sessions emphasized by their very size and over-extended agenda the inexpediency of this approach.



Further, inherent in UNCTAD's global approach to development is the North-South confrontation formula and the concomitant myth that schemes are only workable if acceptable to all major groups of countries, or at least to the West and South. As long as the rate of implementation of UNCTAD's work depends on the most recalcitrant members of each group, then progress will be slow indeed. A great amount of time was wasted at New Delhi and at Santiago by papering over basic conflicts of interest within the Group of Seventy-Five, notably on the issue of generalized preferences. Similarly, much has been made in the West of the concept of "burden sharing," which is both alien to the notions of disinterested aid-giving and assistance and empirically meaningless. If practical agreement among all major trading states continues to be assumed to be a prerequisite before any proposal made at UNCTAD can be successfully implemented, then the efforts of the developing countries and the work of the secretariat will continue to be rewarded with failure.

There is, as we have seen, little other than diplomatic unity within each of the major groups of countries on the gut issues placed before UNCTAD. The South is fired with a sense of the injustice of existing world trade and production patterns. This feeling generates moral solidarity among the developing countries but it does not automatically

reconcile their conflicting political and economic interests and ambitions. In the East, the principal cleavage exists between the Soviet Union and the several East European states who regard themselves as developing rather than developed countries. Conceivably, a future vote on the recently revived ITO issue could precipitate a socialist split, with some of the USSR's "fraternal allies" breaking ranks and aligning themselves with the "Seventy-Five," perhaps for political as well as economic reasons. The Western group is torn mainly between the nondiscriminatory GATT approach and the discriminatory Common Market approach to world trade, but with general agreement among its members not to embarrass each other on vulnerable points.

Yet the fundamental problem of UNCTAD is not one of a wrong development strategy, cumbersome machinery, or even obstructive national officials and politicians, but the fact that, with few and partial exceptions, there is currently little domestic support for UNCTAD's measures in the industrial world. There has been an abatement of the East-West conflict which had served as an automatic stimulus to aid-giving and growing disillusionment in both camps with the short-term political importance and development prospects of the Third World. The United States and the Soviet Union have both turned to a much more selective and tight-fisted approach to development abroad, including

UNCTAD's use of trade policies for aid.

Nevertheless UNCTAD has influenced the superpowers' policies toward the Third World and its problems, though the full significance of these changes is still somewhat murky after nearly a decade. Probably the most clear-cut trend has been the USSR's increasing disenchantment with the prospects of a genuine East-South partnership in the United Nations. UNCTAD undoubtedly fostered a new realism and greater sophistication in Soviet attitudes toward the developing countries, but the full explanation for Moscow's current pragmatism in its relations with the Third World is hardly to be found in the Geneva or New Delhi proceedings. The answer lies rather in the full experience of the USSR with the developing countries and particularly in the ouster of the ebullient and opportunistic Nikita Khrushchev from the seat of Soviet power in October, 1964. The effort to remodel international organizations on the premise that the world was neatly divided into three rival clans of states and that one such clan--the Third World--was susceptible to the general leadership of the USSR was distinctly Khrushchevian in strategy and style. Leonid Brezhnev and his colleagues fully realized that "troikas are for riding" and that lavish courtship of the developing countries yields minimal political returns. Accordingly, the post-Khrushchev leadership soon inaugurated a more versatile approach to

## Soviet relations with the Third World.

There is growing evidence that Moscow's pragmatic reassessment of its relations with the Third World has facilitated a broadening and expansion of East-South trade. The USSR, along with the East European states, have attempted to meet some of the "Seventy-Five's" demands out of sheer commercial common sense. Although the semi-developed socialist economies do not have the resources sufficient for financing extensive foreign aid programs, they have found it feasible and advantageous to establish complementary trade and production patterns in certain sectors with less developed countries. The highly advanced and wealthy Western countries, on the other hand, have tended to follow an "aid, not trade" policy at UNCTAD. They have generally responded more favorably to developing-country claims that would require direct aid rather than substantial trade concessions. Indeed, the only real progress made at UNCTAD has been in the field of compensatory and supplementary financing--two disguised forms of straight aid. The Western countries have resisted UNCTAD measures such as commodity agreements and tariff preferences which would upset national trade and production patterns, partly because of the impossibility of establishing much in the way of a West-South division of labor.

It is therefore misleading to picture the Soviet bloc as occupying the same ground as the Western powers in the North-South conflict. Both camps, to be sure, resist large-scale fund raising activities and the creation of United Nations agencies which threaten to increase the political leverage of the Third World. But there is no basic congruence of their direct economic interests vis-a-vis the developing countries. The socialist economies are geared more for trade than aid, while the free-market economies find direct aid a softer option than major trade concessions. Yet from the standpoint of the Third World such distinctions miss the mark. Both East and West have essentially approached the problem of economic development as a residual one that can be tackled here and there with a few and insufficient measures instead of bold and resolute action. National interests, not international concern, have dictated the policies of the developed countries. The Southern "have-nots" may attempt to formulate a global strategy for development predicated on a concept of rights and duties running between the affluent and less affluent, but as long as UNCTAD's measures remain dependent on the recalcitrant Northern goodwill and pass-the-hat exercises, its capacity to mobilize resources and promulgate effective policies will be severely limited.

To a considerable extent UNCTAD itself has contributed

to this lack of sufficient political will among the rich nations to meet the economic problems of the poor. From a political point of view, both the United States and the Soviet Union have had serious misgivings about the diplomatic unity of the Group of Seventy-Five and its determination to create and use new development agencies as instruments of pressure to achieve its goals. Partly for this reason, partly because of the unwieldiness of UNCTAD's machinery, the bulk of the real work in the economic field continues to be done by previously-established international organizations or, in the Soviet bloc's case, through bilateral channels. These older institutions have, however, undergone profound changes in response both to the needs of the developing countries and to new attitudes on the part of the developed Western countries. The World Bank Group has stepped up its agricultural and industrial projects and exhibited a timely willingness to grant long-term supplementary financing for development. The International Monetary Fund, long regarded by many of the developing countries as a citadel of economic orthodoxy, has become a much more flexible body in providing short-term assistance. GATT, particularly since the publication of its pace-setting Haberler Report in 1958, has increasingly turned its efforts toward expanding the export earnings of the developing countries through measures

other than the reciprocal reduction of tariff barriers. These innovations have largely followed in the footsteps of conceptual advances made by UNCTAD, but their net effect has been to strengthen and legitimize the very Western-dominated institutions which some had expected UNCTAD would eventually supersede.

Interestingly enough, the Soviet Union does not seem displeased by this course of events and UNCTAD's relatively limited operational role. This is an ironic turn considering that Moscow had at one time hoped that UNCTAD might serve as a step toward replacing the existing machinery for international commerce and finance with an entirely new world trade organization which would be free of Western hegemony. But the USSR has now become wary of any new institutional setting which would threaten to reshape world economic relations according to the dictates of the numerically superior group of Third World countries. It prefers the "safe" and manageable Trade and Development Board to the clamorous and cumbersome triennial Conference in seeking to expand East-West commerce.

From an economic standpoint, UNCTAD's debates and documents have fostered a growing recognition that the problem of development is a highly complex and many-faceted one requiring simultaneous action on many fronts over a very long period of time. The intransigence of the

development process, which makes a mockery of global strategies for rapid economic advancement, is discouraging. The developing countries are much more aware of the enormous task which lies ahead of them than of the progress already made. The developed countries for their part have relaxed rather than redoubled their seemingly Sisyphean labors at development assistance, more humble and perhaps wiser than in the heady pre-UNCTAD days of competitive coexistence. The Soviet bloc countries may even share a sense of relief that they have been largely ignored at UNCTAD and that only the United States, the West European countries, and Japan are regarded as having both the economic strength and the moral commitment to expand the flow of resources to the developing areas on a scale commensurate with their needs.

Somewhat paradoxically then, the very successes of UNCTAD in demonstrating the capacity of the Southern countries to organize and the intractability of their economic problems have helped to revive the climate of fatigue and frustration that had set in by the time of the 1964 Geneva Conference. UNCTAD can claim some enduring accomplishments by having stimulated conceptual advances and certain policy moves beyond its own institutional walls. But its experience has shown above all the inability of the international community to reach



agreed solutions to complex development issues which cut at the heart of national interests and the present world economic order. As of this writing the era of a global partnership of rich and poor nations, like utopia, seems to recede even as one attempts to approach it.

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