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STRUGGLE OF THE DEVELOPING COUNTRIES FOR NORMALIZATION OF TRADE

Introduction

Trade has traditionally been regarded as a powerful engine of growth. Most of the developing countries largely depend on the income from the export sector. But the present international economic relations do not provide equal benefits to all the countries participating in multitude of interactions because of the greatly differing stages of development. Analysing the unequal distribution of benefits from the present economic relations, Raul Prebisch developed a theory of "Periphery Economy". According to this theory the world is divided into two parts : one is the industrially developed "Center" and the other is "Periphery" with backward agrarian economy.

Generally, developed capitalist countries produce and export industrial commodities and the developing countries—mainly primary commodities. As technological development and accumulation of capital are very high in the developed countries, productivity of labour is also very high in these countries in comparison with the developing ones. For example, in the 1970s, the productivity of labour in production of foodstuff in the developed countries was 15-20 times more than that in the developing countries.

Moreover, transnational corporations control a substantial proportion of the trade of the developing countries. In the process of functioning in the world market and through providing loan and credit they get the opportunity to enter into the market of the developing countries. They buy different raw materials and semi-processed goods from the developing countries in substantial quantities : between 70 and 75 percent of bananas, rice, rubber and crude petroleum ; between 75 and 80 percent of tin ; between 85 and 90 percent of cocoa, tobacco, wheat, cotton, jute, forestry products, and copper ; between 90 and 95 percent of iron ore and bauxite.[1] Since the export price includes all the local costs, the primary producers earn only a small percentage of the final sales price, but the monopolies and transnational corporations through their marketing mechanism obtain the biggest share. Because of their dominant role in the world economy, they can always manipulate the prices at their interest. For example, during the period 1950-1972 prices of raw materials in the world market increased by 26 percent yearly on average, while the price of finished products increased by 69 percent. Even during the same period the raw materials exported from the developed countries increased by 29 percent yearly while the price of the raw materials exported from the developing countries increased by 14 percent only.[2]

The terms of trade of the developing countries move against them and deteriorate day by day. The causes among others of such deterioration are :

i) As technical development, accumulation of capital and productivity of labour are very high in the industrially developed countries, the cost of production of finished products decreases at a more rapid rate than that of the agricultural products. But this is not the case with raw materials which face more or less an inelastic cost schedule and as such the terms of trade between finished products of the industrialised countries and raw materials of the underdeveloped countries become unfavourable for the latter.

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1 Ervin Laszlo and others, *The Obstacles to the New International Economic order* (Pergamon Press, New York, 1980) p. 2.

2 A.C. Kodachenko, *Foreign Economic Policies of Imperialism and the Developing Countries*, (Moscow, 1977) p. 76.

ii) Disparities in the rates of increase of demand for imports between the industrial and developing countries also affect the export of primary products adversely.

The terms of trade of developing countries (excluding the major petroleum exporting countries) in 1972 deteriorated by about 15 percent as compared with that in the mid 1950s. This is equivalent to a loss of about US $ 10 billion or more than 20 percent of these countries' aggregate exports in 1972. This cumulative loss considerably exceeds their receipts of the Official Development Aid.[3]

The exports of the developing countries face an increasing variety of protectionist measures for entry into the market of the developed countries. All developed market economy countries protect their domestic processing industries by import tariff. Such trade barriers are a major constraint on the development of commodity processing industries in developing countries. One estimate concerning the incidence of such protection indicates that if Organisation of Economic Cooperation and Development (OECD) countries were to eliminate the barriers against the importation of manufactured goods from the developing countries, the latter would be earning an additional US $ 29 billion per year by 1985 over and above the current projections.

Certain non-tarrif barriers to trade, such as administrative barriers, quota restrictions, voluntary regulations affect many important export products of the developing countries.

Now-a-days primary products and processed ones as the main components of exports of the developing countries are facing competition from new synthetic materials produced in the developed countries. For example, cotton and wool have been replaced by synthetic fibre ; the consumption of synthetic rubber has exceeded that of natural rubber ; plastic materials are replacing many natural materials like steel, wood, leather, jute, hard fibres and paper. Since natural products

3 G.K. Helleiner, *A World Devided, the Less Developed Countries in the International Economy*, (Cambridge University Press, Cambridge, London, New York, Melbourne) p. 35.

are the major source of export earning of the developing countries, the expansion of synthetic substitute has become harmful to the export economy of the developing countries. It can be cited here that out of 12 million tons of rubber produced in the world in 1977, only 30 percent was provided by natural rubber, the rest came from synthetics.

In order to reduce the difficulties and disadvantages they face in the foreign economic relations, the developing countries have launched a struggle to establish a new international economic order part of which would be a just and fair trade relations.

UN and other international organizations have been used in negotiating trade arrangements with industrially developed countries. The United Nations Conference on Trade and Development (UNCTAD) is the main centre of negotiation. The Sixth Special Session of UN General Assembly adopted a Declaration and Programme of Action for the establishment of a New International Economic Order (NIEO).

Generally the developing countries come forward in the international forums with the proposals related to (i) Stabilization of export earning of the developing countries ; (ii) Expansion of access of finished products by the countries of Asia, Africa and Latin America in the market of the developed countries.

In this paper, an attempt has been made to assess some of the achievements of the developing countries in the field of foreign trade as a result of their struggle in different international forums. Here emphasis has been given on the UNCTAD's role in solving the problem of trade relations because most of their efforts have been channeled through this UN body. In relating to the problem of trade of the developing countries, an attempt has been made to analyse a particular problem i.e. Integrated Commodity Programme (IPC) with its components.

UNCTAD and other UN Organizations' Role for Normalization of Trade

From the early 1960s the developing countries have been urging the United Nations to organize inter-governmental conference to study the problem of international trade. First UN Conference on Trade and Development was held in 1964 in Geneva. 120 states (including 77 developing countries) participated in this conference. It adopted recommendations to establish a new body of United Nations, namely, UN Conference on Trade and Development (UNCTAD). The General Assembly Resolution no 1995 (XIX) of December 30, 1964, confirmed the recommendation to set up UNCTAD as a standing body of the UN General Assembly. Now 166 states, which include developing, developed capitalist and socialist countries are members of the UNCTAD. Its activities cover organization and holding of multilateral talks and adoption of recommendatory resolutions, geared to the conclusion of legally binding acts. The main funcitions of UNCTAD are to :

(i) Promote international trade leading to economic development

(ii) Formulate the principles and policies in international trade and find ways for implementation of these principles

(iii) Coordinate activities in international trade within the UN framework ; and

(iv) Initiate actions aimed at adopting multilateral legal acts on trade without duplicating the activities of other bodies.[4]

UNCTAD has become an important forum for the developing countries where they can express their views on international trade arrangements. In the first session of UNCTAD, an important document entitled "Principles of International Trade Relations and Trade Policy Conducive to Development" was adopted. Such a document by the international community (in spite of vigorous counteractions by a number of countries, specially the USA) is an important event in the history of international eoconomic relations. In the first UNCTAD the 'Group of 77' was formed.[5]

4 *For a Restructuring of International Economic Relations*, (20th Anniversary of UNCTAD) (Progress Publishers, Moscow, 1983) p. 19.

5 In the XVIII Session of the General Assembly of the UN held in 1963, 75 states expressed their united opinion on the international economic problems. It was the first time in the history that so many countries were united. That is why before Geneva Conference the Group was known as "Group of 75". During the Geneva Conference three more countries joined the Group and New Zealand went out. So it became a Group of 77.

One of the important contributions of UNCTAD in the field of international trade has been the 'prioneering role in initiating General System of Preferences in 1971.[6] The main idea behind the GSP was that manufacture exports from the developing countries should be given preferential access to the markets of the developed countries. The objectives of GSP were to : (i) Increase income of developing countries from their export and (ii) Assist in their industrializaition. All the developed countries that had agreed to provide preferential treatment to the less developed countries under this proposal have by now introduced their individual GSP scheme, thus assuring either free entry or at reduced tariff rates to manufactures, semi-manufactures, primary and agricultural products which are exported from less developed countries.[7] FRG, France, Italy, Japan, Belgium, Holland, Luxembourg, Norway introduced GSP to the developing countries in 1971 ; Great Britain, Sweden, Finland, Australia, Denmark, Ireland joined the scheme in 1972 ; Canada joined in 1974. Finally the USA which imports one-third of finished and half finished products from the developing countries agreed to introduce GSP in 1976.[8]

Besides the GSP, the Export Earning Stabilization Scheme (STA BEX) is also an internationally accepted system for stabilizing earnings from exports of the developing countries.[9]

At UNCTAD II developing countries forwarded a programme known as Charter of Algiers.[10] The Charter dealt with the commodity problems specially on international commodity arrangements, buffer

6 General System of Preferences was adopted as an international agreement in the Second Session of UNCTAD at New Delhi in 1968.

7 A.M.A. Rahim, *Bangladesh Economy ; Problems and Prospects* (Barnamala Press and Publication, Dhaka, 1980) p. 130.

8 B.P. Koluovand E. Komlev, *For Equal Rights in Economic Relations* (Progress Publisers, Moscow, 1980) p. 100.

9 The STABEX System was established by the 1975 Lome Convention (Lome I). Detailed discussion about STABEX follows.

10 This is known as Charter of Algiers, because the programme contains all the economic demands formulated at the Algiers Ministerial Conference of the Group of 77, held in October 1967.

stocks, exports diversification programme and pricing policy. It was mentioned in the Charter that commodity problems of the developing countries can be solved with the help of commodity arrangements using buffer stocks as one of the means to stabilize the market.

Developed countries and international financial agencies were urged to extend financial and technical assistance for implementing export diversification programmes. In the field of price policy, several measures like removal of price fluctuations, highest possible earnings from commodity exports, increase of the purchasing power of exports from the developing countries were suggested in the Charter.

In order to develop the national economies, most of the developing countries have given enhanced attention to their export and import policies. They formulate these policies with aims of export diversification, increasing, export earnings and reducing dependence on imported goods.

UNCTAD III (held at Santiago, Chile from 13 April to 21 May 1972) could not take any substantive decision in the field of trade. Only a decision of undertaking a comprehensive research into the existing world marketing systems (specifically influence of fluctuation of prices and operation of transnational corporations on the price level of major world commodity markets) was taken.

The Sixth Special Session of the UN General Assembly which was held from 9 April to 1 May, 1974 is an important event in the history of struggle of the developing countries for equal rights in the international economic relations. This was held at the initiative of Algeria on behalf of non-aligned countries. Main objective of this Special Session was to discuss the problems of raw materials and economic development of the developing countries. Important documents like the "Declaration and the Programme of Action" for establishment of a New Economic Order were adopted in this session.

Declaration for establishment of a New Economic Order is a document containing the principles on which international economic order should be based. The programme of Action is a more concrete document. It emphasized on facilitating export of commodities from the developing countries to the developed ones. The document also stressed on avoiding all practices of tariff barriers by the developed countries against the access of the commodities (specially finished products) of developing countries to their markets.[11] For example, 16 percent of total import of the developed capitalist countries from

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their developing counterparts fall under custom limitation and approximately 21 percent fall under non-traiff limitations.[12] In these documents, the developed countries were also requested not to produce synthetic materials for which natural materials are available in the developing countries.

The concept of New International Economic Order was supplemented and concretized in a number of international conferences like Dakar Conference on raw materials (February 1975), Conference of Foreign Ministers of Nonaligned countries at Lima (August 1975) and Manila Conference of the developing countries on trade (February, 1976).

Besides these, at the Special Session VI of the General Assembly attention was given to the problems like improvement of General System of Preferences and stabilization of foreign currency earnings of the developing countries in the world market.

In 1976, UNCTAD IV was held in a difficult period when the severe economic crisis of 1973-75 spread to all capitalist countries. In this situation in order to stabilise the commodity market, an integrated commodity programme was chosen as a central agenda item of UNCTAD IV.[13]

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11 UN Doc A /Res 3202 (S-VI) 1974 p. 6.

12 *The Financial Times*, 3 July 1976.

13 Detailed discussion on Integrated Commodity Programme follows.

UNCTAD V (Manila, May 1979) and UNCTAD VI (Belgrade, June-July 1983) adopted consensus resolutions on commodities, protectionism and economic cooperation among developing countries. At the Belgrade Session the developed countries agreed to halt protectionism, reduce and eliminate quantitative restrictions and undertake measures to lift the barriers against the import from the developing countries. In short, developing countries have their achievements and failures in their struggle in different international forums. The achievements in the field of international trade are : (i) formation of 'Group of 77' as a result of the unity of the developing countries, (ii) formation of main principles of international trade (iii) acceptance of General System of Preference and STABEX as international agreements and (iv) adoption of important documents like "Declaration and Programme of Action" for establishment of a New International Economic Order. It has been seen from the history of international economic relations that although in some cases acuteness of the problems and need for action were acknowledged, no practical action was taken to solve the problem. As a result, there exists a gap between acknowledgement of the need for action and actual performance. In order to redress this gap, the developing countries should be economically and politically more united among themselves in order to increase their bargaining power in negotiation with the developed countries.

Integrated Commodity Programme

Past efforts to reorganize the raw material markets through product-by-product approach were without much success. UNCTAD IV (held in Nairobi, Kenya, May 1976) adopted an Integrated Programme for Commodities (Resolution 93/IV).[14] The objective of the

14 The initiating UNCTAD documents spelling out the Integrated programme for commodities are; An Integrated Programme for Commodities, Reports by the Secretary General, TD /B /C. 1/66 (Geneva : UNCTAD, 1974) together with supplements, Supp. I Add I. and Supp. 2-5. Indexation of prices, Reports by the Secretary General, TD /B /503 / Supp. I, Add I (Geneva : UNCTAD, 1974), leading to acceptance of the Integrated Programme for Commodities in 1976 at UNCTAD IV, Resolution 93 (IV).

developing countries behind Integrated Commodity Programme was to bring in comprehensive and structural changes as the partial and isolated solutions failed to provide satisfactory results.

In the case of the UNCTAD Integrated Commodity Programme (IPC), it is argued that "Fundamental to the proposed new approach is the setting of far wider objectives for international commodity arrangements, including the improvement of marketing systems, diversification (horizontal and vertical), expanded access to markets, and measures to counter inflation, in addition to the traditional objectives of stable and remunerative prices".[15] Resolution 93 (IV) of the Session established the principles of the programme specifying objectives, products to be negotiated, measures to be adopted and negotiating procedures.

Main elements of IPC are : (1) establishment of international buffer stocks, (2) common fund for financing buffer stocks (3) international commodity agreements (4) indexation of prices and (5) compensatory financing for stablization of export earnings.[16]

1. Establishment of Buffer Stocks for Raw Materials

Buffer stocks will be established in order to stabilize prices of commodities of great importance to developing countries. Stabilization of prices will be done through a planned production on the realistic assessment of demand and supply. The stock will also assist to offset excessive movements either upwards or downwards in price through market intervention. Initially 10 'core' commodities were chosen for inclusion in the stock. These were: cocoa, tea, sugar, cotton, rubber, jute, sisal, copper and tin. Later on 8 more commodities like bananas, bauxite, iron ore, manganese, meat, phospates, tropical timber, and vegetable oil were added. These 18 products accounted

15 UNCTAD /TD /B / C.I / 116 p. 3.

16 In this paper, some of the important elements are discussed in details.

for 32 per cent of world commodity exports (except oil) and 66 per cent of commodity exports from developing countries in 1974-1975.[17]

2. Common Fund

The main purpose of establishment of the Common Fund would be to finance buffer stocks. According to UNCTAD "..............the Common Fund and international stocking policies are the core of the programme. A Common Fund for stock financing is essential if impetus is to be given to the building up of international stocks of major storable commodities. The possibility of reacning agreement and operating stocking schemes as the principal new feature of a comprehensive range of commodity arrangements is unlikely to be realized rapidly and effectively unless such a Common Fund is created".[18]

UNCTAD supported establishment of the Common Fund considering the following points : (1) financing of a commodity agreement would be easier collectively than individually. (2) The Fund could acquire loans at more favourable terms on the international capital markets than the commodity organizations separately and (3) the existence of the Fund would encourage and facilitate the signing of commodity agreements because financing would not be serious problem for them. In 1979 agreement was reached to establish the 'Common Fund' with a capital of US $ 750 million. The Fund will consist of two windows. The Common Fund through its first window would contribute to the financing of international buffer stocks within the framework of international commodity agreements. International commodity agreements would have their autonomies and Fund would not intervene directly in commodity markets. The Common Fund through its second window would finance commodity development measures like enhancement of long term competitiveness, research and

17 *For a Restructuring of International Economic Relations* (20th Anniversary of UNCTAD), (Progress Publishers, Moscow, 1983) p. 109.

18 TD/D.I/193 (28 October 1975), p. 5.

development, productivity improvements, marketing and other measures to promote diversification.

The first window of the Common Fund would have capital of US $ 400 million.[19] Out of this, US $ 150 million would be contributed in cash, $ 150 million as capital on call and $ 100 million as collable capital.

The Agreement was opened for signature and ratification in October, 1980. By the end of UNCTAD VI (July 1983) 108 countries signed and 54 countries ratified it. The Fund can become operational when at least 90 countries (accounting for two-thirds of the directly contributed capital of the fund) ratify it.

3. *International Commodity Agreement*

Generally, commodity agreements are reached between producers and consumers. The countries participating in agreement are in contact to regulate the price or production of a particular commodity in order to prevent fluctuations in export earnings. UNCTAD Resolution 93 (IV) stressed for international negotiations for ICAs on 18 commodities or commodity groups.

Price of the commodities will be fixed for a particular period. Exporting countries will be responsible for supply of particular amount of goods with good quality and the importing countries also will be obliged to purchase a particular amount of goods. It was also proposed to establish a global system of payment of compensation to the

19 During the time when discussion started on the idea of fund it was estimated that for effective stabilization of price of the major commodities, it would need to call upon resources of the order of US$ 18 billion. By UNCTAD IV this was reduced to US $ 6 billion, By UNCTAD's own estimates. the requirements for just three commodities—coffee, cocoa, and copper will be US $ 3.5 billion. As against these requirements, the fund will begin with only US $ 400 million, relying on the possibility of the conclusion of ICAs in the future and borrowing in a hostile financial environment As quoted in L.A. Rangarajan, "Commodity Conflict Revisited, from Nairobi to Belgrade" *Third World Quarterly*, July, 1983 Vol. 5, No. 3, p. 591.

developing countries (like STABEX) for their losses of export earnings as a result of the decrease of the price of raw materials.[20] This compensation should be without reinforcement and as a kind of long term credit without interest.

Some international commodity agreements (ICA) existed even before the adoption of the Integrated programme for Commodities. Since 1945 four principal agreements i.e. for coffee, sugar, tin, wheat are operating for varying periods. These agreements were designed to stabilize the market of the commodity in question with the help of either buffer stocks or export quotas.

The Fifth International Tin Agreement was in force up to July 1, 1982. This was being operated with buffer stock. 20,000 tonnes of buffer stock were financed by producers and another 20,000 tonnes were purchased with voluntary contribution by importers. The Sixth Tin Agreement already drawn up envisages the financing of buffer stocks from direct equal contributions by producers and consumers.

International Coffee Agreement is based on the methods of export quotas. It was initiated in 1962. Almost all consumer and producer nations supported it. The latest sugar agreement have been in force since January 1, 1978. It regulates market of sugar by export quotas and buffer stocks totalling 2.5 million tonnes of sugar.

After adoption of Integrated Commodity Programme, only one new ICA has been negotiated—International Natural Rubber Agreement (INRA). The INRA operates by creating an international buffer stock financed from equal and direct contributions by producers and consumers.

The developing countries made a successful attempt in managing an international commodity market in the field of oil. In the early 1960s the oil producing countries esatablished a producers' association namely, Organization of Petroleum Exporting Countries (OPEC). It was established with the purpose of resisting moves by international

20 Global System of Compensation has been discussed below.

oil companies aimed at reducing their tax commitment to the host countries and maintaining the price of oil acceptable to them. As this organization consists of countries with various economic and political interests, it was feared that OPEC would not last very long. However, OPEC has not merely survived, it has enormously increased its influence in the oil market. Now it controls about 90 percent of the world export of petroleum.

Producers associations can also help producer-consumer negotiations, improve existing ICA or establish new ones. Some of the commodity groups of producers and exporters of raw materials in Asia can be mentioned here. These are : Association of the Countries Producing Natural Rubber (ACPNR). Asian Coconut Union (ACU), Union of the Producer of Pepper (UPP), Association of Supplier of Timber.

Asian Coconut Union (ACU) was formed in September 1969 with the countries like India, Indonesia, Malaysia, Philippines, Singapore, Sri Lanka and Thailand. The ACPNR was formed in October 1970. Indonesia, Malaysia, Singapore, Sri Lanka and Thailand are the members of ACPNR. Union of the Producer of Pepper was organized in August 1972 with India, Indonesia and Malaysia. Association of the Supplier of Timber was formed in December 1974. Indonesia, Malaysia, Philippines are the members of this association. The member countries of these associations control 90% of world export of rubber, 60% production of coconut palms, 80% of black pepper, 40% of timber.

Some western countries try to preserve free play of market forces with their traditional ideological arguments in favour of free trade. As it is not profitable for monopolies, they are not interested in stabilizing commodity markets. Sometimes they succeed in frustrating negotiation at preparatory meetings. Some countries of the capitalist world being big importer or exporter of a commodity in question do not participate in agreements. As a result the agreements cannot be utilized to the full. For example, European Economic Community

(EEC) does not join the International Sugar Agreement inspite of EEC countries being the World's leading dealers in sugar. When the International Cocoa Agreement was made, the United States, the chief importer and the Ivory Coast, chief exporter of cocoa refused to join it. The United States and Bolivia refused to take part in the Sixth International Tin Agreement. But Bolivia is a major producer of tin and USA is both the biggest importer of tin and possesses a huge surplus of this strategic raw material (even much greater than the stabilizing buffer stock under the Tin Agreement). Exporting countries have been unable to agree on quotas i.e. dividing up the market into shares in the negotiation on tea. The Coffee Agreement suffers from quarrels among different coffee producing countries (for example, both Brazil and Indonesia demand for bigger market share). All these confusions and contradictions make the agreement less attractive. New countries do not like to join it. As a result, it has become difficult to realize the Integrated Commodity Programme as a whole.

4. *Indexation of Prices*

According to the classical concepts of the terms of trade which has also been shared by Ricardo and Keynes, production of raw materials is characterized by decreasing returns to scale (due to the worsening national, geological conditions) and manufacturing industries by increasing returns to scale (under the effect of technical progress and raising of productivity).

Analysing reduction of raw material price after the Korean war and due to its harmful effects on the economic development and import capacity of Third World countries depending strongly on the export of raw materials, doctrine of decreasing terms of trade was formulated. This doctrine is well-known as Prebisch-Singer thesis. According to this thesis, the terms of trade of developing countries are bound to deteriorate, progressively and inexorably, so long as the distribution of power remains as it is now.

Indexation relates to measures for maintaining stable proportion between the prices of exports of the developing countries and the prices of their imports from the developed ones. The objective of such indexation is to arrest further deterioration of terms of trade of the developing countries by adjusting the prices of primary commodities exported by them when the prices of their imports change.

According to RIO (Reshaping the International Order) the principal objective to be achieved (by the UNCTAD Integrated Commodity Programme) is to regulate the prices of the main exports of the Third World countries in such a way as to continually improve the derived purchasing power in terms of the prices of imports from the Industrialized countries.[21] But unfortunately, the developing countries did not get approval by the developed countries of the system of Indexation of prices. So far no resolutions were taken on indexation.

5. *Compensatory Financing for Export Earning Stabilization*

Raw material exporting developing countries very often face the problem of fluctuation of prices of commodities exported by them. Fluctuations in export earning lead to both short term balance of payments problems and disruption of longer term plans for development. Compensatory financing is a method of stabilizing producers' export earnings. But this, unlike cartels and the commodity agreements, do not interfere directly in the price-fixing process. It tries to remove the unfavourable consequences of fluctuation of prices. If income from export in a particular period is reduced compared to a base period (base value), the exporter receives compensatory financing.

Compensatory financing defined in a strict sense consists of a fund which stabilizes a country's export earnings over a medium term trend by compensating for shortfalls from the trend and requiring repayment when export earning rise above the trend.[22]

21 David Evans, "International Commodity Policy: UNCTAD and NIEO In Search of a Rationale," *World Development*, Vol. 7 No. 3, 1979, p. 259.

22 Thomas K. Morrison and Lorenzo Perez, Analysis of Compensatory Financing Schemes for Export Earning Fluctuations in Developing Countries, *World Development*, Vol. 4, No. 8. 1976, p. 687.

There have been two existing mechanisms for stabilizing export earning by compensation :

1. The Compensatory Financing Mechanism (CFM) of the International Monetary Fund (IMF) : The compensary financing mechanism in the framework of IMF was established in 1963. This CFM generally allows the country concerned to draw up 25 per cent of its IMF quota if that country's export earnings are lower than the average of the export earnings of the present and last two years. The facility is provided only when IMF is convinced that the decline in export earnings has not been deliberately created and is of relatively short run nature. Expected period of repayment is three to five years. Under the pursuance of UNCTAD, IMF agreed to extend the mechanism to allow an additional compensatory drawing of another 25 per cent of the members' quota. But the country concerned can get the IMF facility only when the latter is satisfied that the country is strictly following the recommendations of IMF to deal with the export fluctuation.

2. STABEX : This is a system for stabilizing export income of some of the developing countries. The STABEX system was established by the 1975 Lome Convention (Lome 1) between the EEC and the forty-six African, Caribbean and Pacific (ACP) countries. Out of these, 37 are from Africa, 6 from Caribbean and 3 are from the Pacific. Now there are sixty three countries under STABEX Scheme[23]. European Development Fund (EDF) comprises of direct financial contributions from the EEC member countries,.

STABEX is a kind of 'insurance coverage' or 'guarantee' against fluctuation or shortfall of export earning of these countries in trade with the EEC. The STABEX system provides compensation to the ACP Governments for any shortfall in the trade measured against a normal trend. A shortffall is defined as a fall in export earnings, by

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23 Adrian Hewitt, Stabex, An Evaluation of Economic Impact Over the First Five Years", *World Development*, Vol. II. No. 12, 1983. p. 1007

product in current prices measured against the annual average of sales to the EEC over the previous four years (the reference level).[24]

The ACP States must satisfy some eligibility conditions to apply to the EEC for a compensatory transfer[25] : (1) The products to which stabilization system applies have originated in their territory (Article 18). (2) 'Dependence threshold'—during the year preceding the year of application a country's earnings from the export of the product to all destinations representded at least 7.5 per cent of the country's total earnings from merchandise exports (Article 17/3). (3) "Trigger threshold"—if the "dependence threshold" is met, then an ACP State shall be entitled to request financial transfer if, on the basis of the results of a calender year its actual earnings from each of the products considered individually are at least 7.5 per cent below the reference level. The transfer, if approved, is equal to 100 per cent of the short-fall.

But the 'dependence' and 'trigger' thresholds have both been relaxed under Lomè II. The qualifying rates are reduced from 7.5 per cent to 6.5 per cent and from 2.5 per cent to 2 per cent for the least developed, landlocked and island states. Upto first Lome Convention STABEX was permitted to cover earnings from 12 primary products exported by ACP countries. These are groundnuts, cocoa, coffee, cotton, coconut products, palm and palm kernel products, hides and skins, wood, bananas, tea, sisal and iron ore. Seven more products, namely, vanilla, cloves, pyrethrum, wool, mohair, gum arabic and ylang-ylang were added to the twelve product groups in 1977.

The Integrated Programme for Commodities (IPC) includes recommendations for improved compensatory financing facilities. The main recommendations are as follows :[26]

24 Ibid. p. 1007.

25 Altaf Gauhar, (ed,) *South-South Strategy*, (Third World Foundation, Great Btitain, 1983) p. 208.

26 United Nations Conference on Trade and Development, An Integrated Programme for Commodities, Compensatory Financing of Export Fluctuations (TD/B/C.I/195), 16 October, 1975, As quoted in Thomas K. Morrison and Lorenzo Perez, *op. cit.* p. 688.

(i) Liberalization of the triggers and the term of compensation, especially for the poorest of the developing countries.

(ii) Poorest countries should be facilitated to greater use of grants in place of loans.

(iii) Developing countries should be able to choose between compensation for total export earnings fluctuations (as in the existing IMF facility) or only commodity export earnings fluctuations (as in STABEX).

(iv) Compensation should be adjusted to the change of import price of the developing countries.

At UNCTAD IV, to counter the developing countries' proposal of an Integrated Programme, Mr. Kissinger, the then Secretery of State of the USA advanced the idea of "International Resources Bank". The idea was that the Bank would lend capital to develop natural resources of developing countries. The objective of the proposal was to secure easy access to developing countries for private capital, and guarantees of raw material supplies from them to the West. The developing countries did not support the proposal. The functions the International Resources Bank were expected to perform, are far away from the main problems of the developing countries in the field of raw materials. While they are seeking for the solution of the problem of price and market of raw materials, the International Resources Bank would deal with investment and guarantee of market for the developed countries. The proposal was put to a vote and rejected by a majority of participants.

Some of the West European countries (for example, UK and West Germany) did not support IPC. These countries would like an individual commodity approach in place of IPC. A minor portion (e.g. 4-5%) of GDP of these countries is spent on import of raw materials from the developing countries (except oil), so increase (even doubling) of prices of raw materials would not affect the economy of these countries very much. But if the supply of raw materials is interrupted, the economic growth of the West European countries will be endangered. That is why security of supply of raw material is important for them. But they do not believe that IPC will lead to greater security of supply of raw materials.

Norway and Sweden supported IPC. Denmark and Netherlands were more leaning towards Norwegian-Swedish position. Canada which came to Nairobi with a considerable degree of understanding along with the smaller European countries made up the Group of Sixteen. Other countries of the group are Austria, Belgium, Denmark, Finland, Greece, Ireland, Italy, Luxembourg, Norway, Netherlands, Portugal, Spain, Switzerland, Sweden and Turkey. On behalf of these countries Mr. Jan P. Pronk, Minister of Development and Cooperation, Netherlands, stated at the concluding session of UNCTAD IV that "the delegations of these countries welcome strongly the commodities resolution. There exists in the resolution a basis for a process which can lead to a new and more equitable relationship between developing and developed countries. The process will be difficult and will require political will and determination. Let us all......concentrate on the objectives and possibilities inherent in the resolution...... rather than on limitations and reservations. Our countries will work actively together with you all and in order that this resolution shall result in a true and comprehensive integrated commodity programme. We will then have taken a decisive step towards a more just and equitable economic order".[27]

The role of the developing countries (specially Group of 77) in adoption of the commodity programme at UNCTAD IV is very significant. The decisions on IPC were possible thanks to their unity, determination and negotiating skill. The countries of the Group of 77 reached at a united position through a series of consultations since late 1975, culminating in the Manila Ministerial meeting in early February 1976. Colombia was the only country to express disagreement puolicly with IPC. OPEC member countries of the Group of 77 also

27 Dragoslav Avramovic, "Commodities in Nairobi", *Economic and Political Weekly*, Vol. XI, No. 42, 1976, p. 1669.

supported the IPC. Their commitment to the programme was made public first time by their signing on February 7, 1976 of the Manila Declaration. Then in the last week of UNCTAD IV, they expressed readiness to extend financial support to the Common Fund.

Conclusion

The developing countries are struggling for a long time in different international forums to strengthen their position in the world trade. As a result of their struggle they scored positivly on a number of occasions while some time they failed. In many cases decisions were taken in favour of trade promotion of the developing countries. But the pace of implementation of the programmes undertaken for this purpose is so far slow. For example, decision at Nairobi (UNCTAD IV) to establish an Integrated Commodity Programme is very important in the sense that it is a recognition of the need for comprehensive approach to commodity problems. It was designed to improve market structures in international trade of important commodities. But no significant progress has so far been made in implementing IPC. Similarly, no remarkeble progress is achieved in implementing the measures to strengthen and diversify the export trade in the manufactured products of the poor countries.

In order to compel developed countries to come to compromise with the developing countries, the latter should be politically united. Increased economic cooperation among the less developed countries is the base for political cooperation.

The countries of Asia, Africa & Latin America are also responsible for their weak position in the international forums and subsequent minimum achievements. Due to their different socio-economic condition they are not fully united. Very offen they do not have common views on the strategy of negotiations, negotiation tactics, and negotiating institutions. This weakness is used by the developed countries at their interest. In order to compel developed countries to come to compromise with the developing countries, the latter should be politically united. Increased economic cooperation among the less developed countries is the base for political cooperation.

Recently, economic cooperation among developing countries has got immense importance. Cooperation among the countries expand the opportunities for economic development of these countries and more efficient pattern of resource untilization. It can also help the developing countries to increase their bargaining position in dealing with the developed countries. Increased cooperation among the developing countries would also counterbalance, by liberalising or windening access to each others markets and supplies, the disadvantages caused by the restrictive policies of the western countries. The issue of economic cooperation among the developing counrtries was also reaffirmed in series of international conferences like Conference on Raw Materials (Dakar 1975), the Conference of Foreign Ministers (Lima, 1975) and by the Summit Conference of the Non-Aligned (Colombo, 1976).

Dependence of the developing countries on the developed world for trade, technology and capital flows introduces a pattern of production, consumption and technology which are not in consonance with the resource endowments of the developing world, because these countries generally formulate their trade policies with profit earning motive rather than for the development of the poor countries. The developing countries should establish their export and import policies in such a manner that they can properly utilize the resources of their own countries and at the same time can get maximum opportunities form the international economic relations.

Now-a-days many developing countries undertake foreign trade policies emphasising stimulation and diversification of exports. They also have started subsitituting import by their domestic product. Many developing countries take highly protectionistic policies with a view to protecting the national industries.