

UNCTAD IV and Implications for Sri Lanka

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UNCTAD has performed the role of catalyst in organising the efforts of developing countries in their legitimate demand for a new international economic framework based on the freedom, independence and sovereignty of nearly 150 nations of the world. During the course of history, international economic systems have been largely the creation of a handful of nations which had the military power and the economic power to impose their will on smaller nations. That age of Empire has gone. We live in a more democratic era—in an age of the common man. It is true, both of individual nations as well as the entire community of nations.

Decisions taken by a few are being superseded by decisions taken by the many; in other words, by the vast majority of nations representing mankind, both rich and poor. UNCTAD has played a crucial role in providing points of focus in the long struggle to achieve a desirable international economic order, particularly for the developing countries. In terms of the history of organisations, UNCTAD is still a very young organisation. Its task has only just begun.

What we see today in the form of demands for the establishment of a new international economic order is nothing less than the demand of the depressed and oppressed nations of the world for a framework of laws, rules and regulations governing the international economic system. Over the years, the task of building up a system of law and institutions within each nation has been tackled fairly and satisfactorily. This has eluded mankind, however, in the international context. We see today the stirrings of a movement to provide a global apparatus of law in various spheres. In the political sphere we have the rudiments of a system of international law. There are institutions to conciliate and arbitrate on matters in dispute bet-

ween nations. In the economic sphere we are now in the midst of formulating a corpus of accepted rules made by the parties concerned and not formulated for them by others. The weakness of the international economic system which emerged after the last World War lay in the fact that it was the product of the efforts of only a few countries. I think it is generally agreed that the global economic system, the decline of which we are all observing, has served the world to some extent in that it ensured an expanding world economy, during at least a part of its time. The benefits of this expanding world economy were however concentrated among a few countries. While it is important that we ensure economic expansion, we also need a system that will include in it elements of a proper and just distribution of the benefits of such expansion. It should also maintain the language of priorities, which will eliminate the wasteful features of the affluent society.

Concern with life styles

The debate on the establishment of a new international economic order takes place at a time when there is greater consciousness of the relationship between man and nature. The entire question of the Environment which was so lucidly elaborated during the proceedings of the Stockholm Conference was nothing less than a clarification of a new relationship between mankind on the one hand and natural resources on the other. The old economic order had no conception whatever of any "limits to growth". Science and technology may have the means to tackle the questions arising from the depletion of non-renewable resources but that is not the whole of this problem. There is also the quality of life. The question of life styles is now increasingly the concern of both developing and developed countries. Conservationists the world over are involved in working out hypothetical life styles which can be sustained by mankind without reducing the quality of life. I consider this a particularly appropriate exercise for the developing countries as they obviously cannot imitate the patterns of conspicuous consumption of the

affluent countries. Moreover, the developing countries have to provide the jobs for large numbers of their increasing populations at a time when they are faced with a severe scarcity of capital resources to provide the wherewithal for employment-creation. The subject of Science and Technology is a major area which will concern UNCTAD IV and I would think that this most appropriate field should be considered by the developing countries in the context of their concern with life styles, employment-creation, income distribution and integrated rural development for the developing countries. Only then will it have a significant meaning for the vast majority of the poorer populations of these countries.

Commodities crucial

A major area of UNCTAD's concern is that of commodities. This is one of the key development issues of our time. The role of commodities in the economic development of the developing countries is crucial and UNCTAD's continuing interest in this subject is most welcome. As a result of the recent energy crisis, there is a greater awareness among both developed and developing nations of the importance of commodities in correcting the imbalance that exists between the North and the South; between the "North" that represents the world's developed or industrialised countries, and the "South" which encompasses the less developed countries, ranging from the newly rich but non-industrialised members of the OPEC, to the poorest and least developed countries of Africa, Asia and Latin America. The potential exists for the countries of the Third World to obtain greater resources through commodities. This is clearly shown in the fact that a 10% general rise in price in real terms for commodities exported by them will more than exceed the total resources flows in the nature of official development assistance (ODA) which they now receive from the developed countries. UNCTAD's integrated programme on commodities is an imaginative approach to this question. In the international sphere, it obviously takes time for this sort of radical and innovative approach to be implemented. It requires a political will the dimensions of which we have

not so far witnessed in the global dialogue that is now taking place.

It is therefore appropriate that UNCTAD is pursuing its ongoing work on individual commodities so that such a disaggregated approach could ultimately result in an aggregation of principles which could ultimately be formulated into a General Agreement on Commodities. I would consider UNCTAD's proposals for a Buffer Stock Scheme and a Common Fund to finance such buffer stocks as being within the power of developing countries to bring about. It is most important that in international bargaining the developing countries should consistently and continuously foster and strengthen its growing solidarity by the establishment of mechanisms for this purpose. The Dakar Conference on raw materials constitutes in this context an important landmark in the history of relations among developing countries. We should now pursue the achievement of those good intentions expressed in the Resolutions at Dakar through the negotiation of substantial agreements at UNCTAD IV. Our own Minister of Finance speaking at the 7th Special Session of the United Nations, made an imaginative and realistic proposal when he suggested the use of gold in the IMF reserves, which are now earmarked for disposal, to finance the Buffer Stock Scheme, as enunciated by UNCTAD. I would like to bring this proposal to your attention. If the developing countries are prepared to set apart a portion of the funds accruing to them through gold sales, the UNCTAD Fund for the financing of buffer stocks could easily become a reality very soon.

Before I leave the subject of commodities, I should like to refer briefly to the commodities of interest to us in Sri Lanka. Two of the five commodities isolated by UNCTAD for early action under the Programme, namely tea and rubber, account for 2/3rds of Sri Lanka's export earnings, and the Programme is clearly of as much importance to Sri Lanka as to any country in the world. In this context, let me refer briefly to our own experience.

Firstly, how have the earnings from Sri Lanka's exports of tea and rubber behaved over the last decade, or so?

In terms of export quantity the answer is easy. From 1962 to 1974, for example, exports of tea fell by 10% and those of rubber increased by 27%. Fluctuations in export quantity were small: 3% and 6% about their trend values for tea and rubber, respectively.

How prices moved is far harder to determine, and depends on how they are measured. If we look at rupee prices we obtain the very pleasing answer that the price of tea increased by 39% and that of rubber by 102%. If we use the now familiar dollar/SDR price, the answer is less satisfactory: a fall of 18% for tea and a rise of 20% for rubber.

This, however, does not indicate how the purchasing power of our two major exports fared over the period. Our exports ultimately are only of benefit to us because they permit us to purchase imports, and our export prices can therefore only be meaningfully expressed in terms

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of import prices. Standardised by an index of import prices, we see that real prices of tea and rubber in fact fell by 71% and 58%—dramatic falls by any standards particularly when it is realised that the figure for tea represents an average compound rate of decline of 10% per annum.

It might be thought that by taking 1974 prices I have over-estimated the extent of the decline. This is true to some extent, but the real price of tea had already fallen to just 42% of its 1962 value in the more normal conditions of 1973. Rubber was not far short at 47%.

Compared to this decline, fluctuations in price have been small. For tea, real price has fluctuated by an average of less than 6% about its trend, rubber by about 9%.

When assessing the relevance of commodity policies in Sri Lanka, the nature of past price movements and

likely trends must be kept constantly in mind.

In talking of price movements, I have, talked as is conventional in quantitative terms about long-run price trends and short-term fluctuations. This leads me on to the second aspect of commodity earnings which I would briefly like to touch upon.

Implicit in most of the recent international resolutions pertaining to commodities has been an acceptance of the need to change the terms of trade in favour of the less developed countries by increasing the prices of the commodities which they export compared with the prices of the goods which they import. Yet this resolve has invariably manifested itself in proposed measures aimed at the reduction of commodity prices fluctuations rather than at the long term increase in price.

Take for example the Interim Report of the Commonwealth Expert Group—The McInture Report. The Report sets out eight general principles which it considers could be applied in working out a detailed commodity policy. Seven of these are directly concerned with or would result in raising the real value of commodity exports; one is concerned with commodity price stability. Yet in the discussion of possible measures, the Report devotes three pages to issues of stabilization, one page to indexation which they see at best as a means of maintaining the real value of commodity exports, and makes no mention whatsoever of increasing the real value of commodity exports. This is certainly inadequate for the developing countries.

The issue of commodities has several dimensions to it. It is on the production and export of these commodities that we in the developing countries depend for our external resources. It is in relation to commodities that the IMF, the IBRD and the various forums of the United Nations have taken up the question of compensatory financing. There have been notable developments in this sphere. I would, however, consider the initiatives so far taken to provide the necessary compensation for the poorer developing countries to meet their day-to-day commitments as being

inadequate for the achievement of even extremely limited goals. The balance of payments of the developing countries have deteriorated to an extent that the poorer countries are now facing problems of a magnitude which threaten their very survival. At this point it is relevant to question the criteria adopted by the IMF in determining the grant of balance of payments assistance. Much has happened since the Breton Woods pioneers talked of "fundamental disequilibrium".

UNCTAD's latest proposal for the creation of a further oil facility is most opportune. Time is however of the essence. There should be a sense of urgency in pursuing a proposal like the Development Security Policy. These are areas of international action which brook no delay. The 6th Special Session of the United Nations identified a programme of action to benefit the most seriously affected countries. Within the last two years, there has emerged a 4th World of Most Seriously Affected countries of not less than a billion people, nearly one-fourth of mankind. In all the proposals of UNCTAD for commodities and for the improvement in the terms of trade and increased resource flows, priority attention should be diverted to this one-fourth of the world's population. It is an unfortunate fact that South Asia is the region that has suffered most as a result of recent international economic development. The 4th World is not far away from us. It is very much here with us on our doorstep. It is also an unfortunate fact that some of the poorer countries are not necessarily countries which have economic significance to the developed countries. These poor countries are not always well endowed in essential raw materials like oil. They are in fact even short of the most basic of commodities such as food. Their per capita incomes are so low that they do not constitute major targets for direct foreign investment of the developed countries. They do not also provide substantial markets to be provided with special schemes of assistance from both the developed and the richer developing countries, motivated largely by a humanitarian purpose.

One of the encouraging features in this regard is the recent so-called

"poverty orientation" in the aid policies of developed countries, so that such policies meet better the needs of the poorest countries. I would consider that commodity and aid policies of developed countries so far as they affect developing countries are complementary rather than exclusive of one another. Improved prices for commodities would ensure that benefits accrue mostly to the richer developed countries particularly those countries rich in the production of metals and minerals. I understand that at the recent 7th Special Session of the United Nations, indexation was being thought of only in terms of the export prices of metals and minerals and not of prices of agricultural commodities. Aid policies can be oriented in such a fashion that their main thrust is directed towards poorer developing countries which cannot benefit from immediate increases in the price of commodities they export. I would like in this

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connection to refer in particular to the interesting developments under the Lome Convention. There are elements in this Convention which are certainly useful in establishing an improved relationship between developed and developing countries. Unless conventions of this nature are globalised they are bound to constitute areas of friction among the developing countries themselves. The solidarity of the developing countries is now sufficiently strong to identify their mutual interests so that it is not possible for the developed countries to weaken this solidarity by preferential arrangements which could tend to be to some extent divisive.

In Aid policy we have long referred to the Pearson target of 0.7 per cent of GNP being diverted by the developed countries as O.D.A. This target has not been achieved. It is

still around 0.3 per cent. I would like to raise the issue here whether it is not possible at least to get the developed countries to divert that amount of resources which they would be obliged ideally to channel to the poorer developing countries if they work on the basis of a global .7 per cent target. A global .7 per cent target would involve an increase of more than U.S. \$10 billion from present levels—more or less a doubling of aid levels. But if one considers only poorer developing countries as an urgent target, and with only half the population of the developing countries living there, an increase of aid by U.S. \$5 billion might meet their urgent demands.

I think that we should particularly address ourselves to issues which should be raised at the proposed UNCTAD Conference to mitigate the debt burdens of poorer developing countries. In this connection, it has to be borne in mind that all foreign aid, compensatory financing, the Oil Facility, the Third Window are at most stopgaps until very fundamental solutions are evolved. In the search for fundamental solutions, it is necessary to identify the causes of the present crisis. Amongst these causes, two stand out prominently, i.e. world inflation and cartelisation. Indeed if developed countries control their inflation about half our problems will be solved. The establishment of an automatic link between additional real resource transfers and increased international liquidity is another area for priority action. The reform of the international monetary system concerns UNCTAD intimately as the climate for development is grievously affected by the vagaries of monetary relationships.

Although the prospects for Trade and Economic Co-operation among developing countries are enormous many of us have been content merely to pay lip-service to the idea. There are complementarities in our economies which lend themselves to a greater degree of integration in trade, in shipping, in industrialization and several other fields. What is necessary is the political will to break through age-old prejudices and develop flexible economic policies to meet the new challenge of our times.