During the past decade, trade in primary commodities has been characterized by the main following features:

(a) the fall in the share of primary commodities in the expanding total value of international trade as compared with the rising share for manufactured goods;

(b) the decline in prices of primary commodities as well as the rise in prices of manufactured goods resulting in a decline in the terms of trade of primary exporting countries; and

(c) the increasing share of industrial countries in world exports of primary commodities.

These different elements have had a great bearing on the declining share of developing countries in the gains from international trade. Comparing the total value of exports from developing countries with the total value of their imports one can find a surplus of 10 per cent at the beginning of the decade against a deficit of the same magnitude at the end of the decade. Moreover, it has been estimated that the annual loss incurred by developing countries via their adverse terms of trade is much more than what they get from foreign economic aid and loans.

Beside the unfavourable trend in the terms of trade, developing countries have suffered from the instability in primary commodity trade; a major source of such instability lies in the cyclical variations that continue to characterize income and output in industrialized countries which constitute by far the most important markets for primary commodities entering international trade.

If, as has been frequently noted, the developed countries can be congratulated upon no longer catching pneumonia when a leading country sneezes, that developing countries are still far from having acquired any immunity or even from having discovered an effective vaccine against the virus of industrial recessions.

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1 Item VI (b) of the agenda.
Over and above these cyclical movements in the advanced countries there are a number of more random fluctuations in demand enhanced chiefly by world political conditions such as the Korean crisis, speculative motives among traders and manufacturers or changes in official policies relating to strategic stockpiling or disposal of surpluses.

Forces affecting supply have also contributed to the instability of primary commodity markets. Output of agricultural commodities is highly susceptible to variations in natural conditions; flood, drought or disease may greatly reduce output in some years, while favourable weather conditions may bring forth unusually large harvests in others.

This state of affairs has suggested measures at the national as well as at the international level.

At the national level, governments have made use of a wide variety of measures, ranging from licensing the acreage under cultivation to interposing official agencies or funds to absorb external fluctuations and thereby insulate domestic producers from the harmful effects of instability. Some primary exporting countries resort to long-term bilateral contracts with major importing nations as an instrument of stabilization. These measures, however, are not adequate; they need to be supplemented by a variety of international measures taking into account a more flexible and dynamic attitude towards the solution of these problems.

So, instead of regarding the export economy as dependent upon the purchasing power of foreign industrialized countries, it may be of greater avail to envisage the level of employment, income and well-being of industrialized countries as being mutually dependent upon the continuity of economic progress in developing countries.

When developing countries face a short-fall in their export earnings they have often resorted to cuts in imports ranging into capital goods, components and raw materials. The corollary to such cuts has often been the disruption of development programmes associated with the frustration of efforts exerted to expand the volume of international trade in an orderly fashion.

This problem, in fact, is a trade problem, because it embraces simultaneously the exports of primary products and the imports of manufactured goods. External sources of assistance are no doubt needed to fill the gap between export proceeds and import requirements of developing countries. Imports of the developing countries are usually accounted for by machinery and equipment necessary for development projects. The burden of financing has proved to be very embarrassing, because external loans are being conducted on a hard-term basis; in fact many developing countries are borrowing from abroad to repay past development debts and interest.

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1 Measures to deal with fluctuations in primary commodity markets replies of Governments to questionnaire circulated by the Sect. General E/CN.13/L.69 and Addenda 1-3.
This situation was aptly summarized during the annual meeting of the Fund and the Bank in 1962, by the President of the World Bank; he stated:

"A dangerously high proportion of export earnings (the prospects for which are themselves clouded) are mortgaged to future debt service. Between 1955 and 1961 a group of thirty-four countries accounting for 70 per cent of the population of the under-developed world, more than doubled its total external public debt. Yet, over the same period the export earnings of the same group increased by little more than 15 per cent."

Distribution of loans extended by industrialized countries in 1961, according to interest and maturities, have been indicated by the OECD in its document "The Flow of Financial Resources to Developing Countries". This document has made it clear that the majority of industrialized countries grant hard-term loans.

Some may argue that GATT is not a lending agency and that it can at the best give advice of a technical character and not aid in the form of financial assistance. This may be true, but it is orthodox and static, particularly at this stage of the GATT evolution. GATT, in effect, needs to be evolved to co-ordinate international assistance from different sources in an orderly way. In the beginning GATT had its "teething troubles", like, if not more, than most other international institutions. GATT, however, has outgrown this stage and is now on the verge to play, if it wants, a more conspicuous and effective rôle in the promotion of development and trade.

Once the concept of development is accepted to be included in the General Agreement, it becomes rather difficult and inconsistent to ignore the most important ingredient of development, namely, financial assistance, which, as explained earlier, is the impetus that helps foster the steady expansion of international trade. The financial assistance in this context works as a lubricant to the international trade machinery; its inadequacy would bring about jerks and stoppages.

Conclusions adopted unanimously by the Ministers during their last meeting of May 1963, could be recalled in this respect. The Ministers approved of the following:

"The work of Committee III should be extended in collaboration with other interested agencies, particularly the lending agencies through the adoption of concerted, systematic and prompt studies of trade and aid relationships in individual less-developed countries aimed at obtaining a clear analysis of export potential, market prospects ...."
In addition, the Ministers emphasized that the work of GATT should be extended in collaboration with other interested agencies to embrace any further action that may be required to overcome any difficulties that the studies reveal.

Besides, many Ministers considered that the problem of financing the gap between the export proceeds and import requirements of the developing countries needed to be given careful consideration.

All developing countries considered that in order to extend the activities of the GATT to embrace the financial aspect, and as a practical measure to achieve that end, a working group should be formed to study the ways and means for enabling the developing countries to obtain from industrial contracting parties loans on soft terms. It is thus gathered, according to the Ministers' views, that our deliberations, should be confined to the ways and means and not to the reconsideration of the issue of extending soft loans as such.

To assist the Committee in its task the following proposed text has been drafted for insertion in the General Agreement:

"The CONTRACTING PARTIES being convinced of the significance of external financing for the steady expansion of international trade and in particular the trade of the developing countries,

"Believing in the importance of the prompt execution of the development programmes of developing countries,

"Recognizing the inadequacy in external financial assistance to meet all development requirements of developing countries,

"Considering the urgent needs of developing countries for additional financial assistance with a view to bridging the gap emerging from the increase of capital equipment imports over exports, or from the unexpected fall in the proceeds of their main exports,

"Industrialized countries shall be prepared to grant financial assistance to developing countries within the framework of bilateral agreements,"
"The following provisions should be observed:

1. The granting of the loan should aim at financing projects embodied in the development plan and relevant to the expansion of international trade.

2. The loan may also aim at meeting a trade deficit resulting from unexpected falls in export proceeds and/or from severe internal damage in production.

3. The minimum duration of the loan should not be less than ten years.

4. Maximum interest rates and other charges should not exceed 3 per cent.

5. The secretariat should be informed of all loan agreements concluded accordingly. In addition the secretariat should keep records of all loans, interest, maturities and amortization of principal and interest."

That was our first proposal. The second proposal we submit embraces a joint meeting of the representatives of the international lending agencies and of the CONTRACTING PARTIES to study the ways and means for achieving co-operation between the two sides, and to study the establishment of a trade insurance fund. The purpose of this fund is to alleviate the risks confronting developing countries and to obviate the adverse repercussions on the economies of the advanced countries.

This proposed fund purposes at compensating primary producing countries, Members of the GATT, under certain conditions, such as the failure of the main crop, etc. Members of the fund are supposed to be the industrialized and the developing countries and contributions to this fund are suggested to be proportionate to the value of exports or any other equitable criteria.

Under this proposed system, beneficiaries may draw funds automatically, in case of shortfalls of export proceeds. This, of course, is thought to be in addition to the IMF recent practices. Funds drawn by a member could be either a final compensation or may be reimbursed partly or in total over a longer period of time and with a lower rate of interest.

We may also put forward for discussion in such a joint meeting a proposal which is intended to supply the IMF with additional resources for the purpose of assisting the less-developed countries of the GATT.
This proposal shall provide for a new aspect of co-operation between the GATT and the international lending agencies without converting the GATT into a lending institution. What is envisaged is the creation of some type of "consortium" or "club". Without going into details at the present time, it may suffice to give the broad outlines of the scheme. The CONTRACTING PARTIES would provide the club with contributions to be established according to certain equitable criteria. The club will stand ready to grant the less-developed members loans on easy terms for meeting unexpected shortfalls in export earnings and other payments difficulties arising from trade and development.

To recapitulate, the following points may be mentioned:

1. The developing countries are still in need of further financial assistance for their development requirements as well as to meet unexpected shortfalls in their export earnings.

2. The inadequacy of external resources is detrimental to the less-developed countries as well as to the steady expansion of world trade.

3. Whilst emphasizing the importance of evolving the General Agreement to embrace development problems of the less-developed countries, our proposals are not intended to convert the GATT into a lending institution.

The aim is simply to achieve closer co-operation between the GATT and those institutions and to confer upon the GATT the sponsorship of financial assistance to the less-developed Member countries.

The proposals we are submitting today are put forward for consideration in order to assist the GATT in devising the ways and means for implementing the Conclusions adopted by the Ministers with respect to the financing aspect. We do hope that the exchange of views on such proposals will culminate in concrete action for the benefit of all contracting parties.
### ANNEX

**Distribution of Official Bilateral Loan Commitments in 1961**

According to Interest Rates and Maturities

(Percentage)

<table>
<thead>
<tr>
<th>I Item</th>
<th>France</th>
<th>West Germany</th>
<th>Italy</th>
<th>Japan</th>
<th>UK</th>
<th>US</th>
<th>ALL OECD \textit{lending} countries</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Interest rates</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>0 per cent to under 3%</td>
<td>49</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>5</td>
<td>26</td>
<td>18</td>
</tr>
<tr>
<td>3% to under 5%</td>
<td>21</td>
<td>38</td>
<td>22</td>
<td>1</td>
<td>2</td>
<td>4</td>
<td>10</td>
</tr>
<tr>
<td>5% or more</td>
<td>30</td>
<td>62</td>
<td>78</td>
<td>99</td>
<td>93</td>
<td>70</td>
<td>72</td>
</tr>
<tr>
<td>Total loans</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

| Maturities              |        |              |       |       |    |    |                                     |
| Over 1 to 5 years       | 8      | 20           | 78    | 12    | 8  | 4  | 12                                  |
| Over 5 to 10 yrs.       | 12     | 15           | 22    | 24    | 9  | 18 | 18                                  |
| Over 10 to under 20 yrs.| 9      | 39           | -     | 64    | 3  | 44 | 36                                  |
| Over 20 to under 30 yrs.| 44     | 26           | -     | -     | 79 | 6  | 18                                  |
| 30 yrs. or more         | 27     | -            | -     | -     | 2  | 27 | 16                                  |
| Total loans             | 100    | 100          | 100   | 100   | 100| 100| 100                                 |