Committee III - Expansion of Trade

DRAFT REPORT OF COMMITTEE III TO THE NINETEENTH SESSION OF THE CONTRACTING PARTIES
Prepared by the secretariat

Part I

Introduction

1. Committee III first met in March 1959 and since that time has identified the main problems adversely affecting the export earnings of less-developed countries. The CONTRACTING PARTIES have recognized these problems as being among the most serious confronting international trade and have unanimously adopted a recommendation that contracting parties take early action to facilitate an expansion of the export earnings of less-developed countries. However, in comparison to the magnitude of the problems confronting the export trade of less-developed countries, little progress has been made. It is now felt that further possibilities for the removal and the reduction of obstacles to the trade of less-developed countries which have been identified by the Committee during the course of its work, should be considered at the policy level. This report, which summarizes the major findings of the Committee since it first met, indicates measures for further action.

Terms of reference of the Committee

2. The Committee was established by the Decision of the CONTRACTING PARTIES of 17 November 1958¹ under their comprehensive programme for the Expansion of International Trade. Having in mind the failure of the trade of the less-developed countries to develop as rapidly as that of the industrialized countries and the need for less-developed countries to expand their export trade at a rate commensurate with their growing import and development needs, the Committee was given as its terms of reference:

¹BISD, Seventh Supplement, pages 27-29.
"to consider and report to the CONTRACTING PARTIES regarding measures for the expansion of trade with particular reference to the importance of the maintenance and expansion of export earnings of the loss-developed countries to the development and diversification of their economies".¹

General approach to the problem

Work priorities

3. Under the programme of work established by the Committee at its first meeting in March 1959 (COM.III/1), the Committee has concentrated its work on an examination of obstacles to an expansion of exports of some thirty categories of products in which loss-developed countries had indicated either actual or potential export interest. This examination was given considerable prominence in the work of the Committee since it was felt that positive action by importing countries in reducing and eliminating measures identified by the Committee as obstacles to an expansion of exports of the loss-developed countries would contribute to an early and significant expansion of the export earning capacity of these countries. Progress made by individual contracting parties in reducing or eliminating these obstacles was reviewed periodically by the Committee.²

4. Under that section of its basic work programme (Section II/2 of COM.III/1) which calls for a

"study of the possibility of channelling expansion of existing industries or starting of new industries by loss-developed countries into directions where such countries would be economically efficient producers".

the Committee has carried out a detailed examination of the trade and payments aspects of the Third Five-Year Plan of India (L/1510), and has laid the groundwork for the examination of other development plans which individual loss-developed countries might wish to see examined by the Committee.

Other aspects of the Committee's work

5. Provision was made in the Committee's basic work programme for an examination of measures which might be taken by loss-developed countries

¹BISD, Seventh Supplement, pages 27-29
²Progress made by contracting parties in response to the findings of the Committee is summarized in the Third and Fourth Progress Reports of the Committee (BISD, Ninth Supplement, pages 120 to 169) and documents COM.III/40, COM.III/40/Add.1, Add.2, Add.3 and Add.4.
to improve their production and marketing techniques with a view to increasing their competitiveness in foreign markets, and for an examination of trade controls and other internal measures applied by less-developed countries which might have the effect of discouraging exports of their own products or imports from other less-developed countries. These problems have been the subject of considerable discussion during the Committee's examination of trade prospects and difficulties with respect to the products included in the commodity-by-commodity examination and also during the examination of the Indian Third Five-Year Plan.

6. The Committee has still to undertake the review envisaged in the Committee's basic work programme of the reports of the GATT Working Party on Commodities as they relate to the work of the Committee.

Part II

Guiding considerations

7. In its work the Committee was aware that, essential as international financial assistance was for the development of many less-developed countries, it could not be a substitute for trade expansion; for the development of the less-developed countries to proceed at a satisfactory pace and in desirable directions, the enlargement of export earnings was of vital importance. The Committee recognized that the rapid and sustained expansion of export markets for the goods of less-developed countries was vital both in the short-term and the long-term for meeting import requirements, amortizing loans, enabling less-developed countries to take full advantage of international specialization and providing the pattern for sound economic development.

8. The Committee considered that, although the main burden of the effort of establishing efficient and competitive industries in less-developed countries and of increasing available supplies for export rested with the less-developed countries themselves, success or failure of the efforts of these countries to develop their economies rapidly and in economically sound directions depended to a large extent on their being able to rely upon liberal access to world markets and above all to the markets of industrial countries. Furthermore, the Committee had in mind that almost all of the less-developed countries were facing serious balance-of-payments difficulties and that there was a tendency to give emphasis to development
policies which, by promoting import substitution, were expected to help economize on foreign exchange. Although the industries so established might eventually become fully competitive, the Committee considered that it would be to the advantage of all trading nations if the less-developed countries could be assured at this stage that the exports of those industries which have already proved competitive would not be denied access to world markets. The Committee repeatedly stressed that economic development policies by less-developed countries which resulted in their fuller integration in the world economy would promote rather than decrease the trade of industrialized countries, by increasing the capacity of less-developed countries to buy increasing quantities of the products of the industrialized countries.

9. The Committee had in mind also the advantage to be gained by less-developed countries by realizing economies of scale and achieving greater efficiency of production provided they were given the opportunity to supply export markets as well as the domestic market. The Committee recognized that, particularly for manufactured goods, domestic markets in many less-developed countries were limited by the absence of adequate purchasing power and were thus too narrow a basis in themselves to permit efficient production.

Part III

Recommendations of the Committee

10. Aware of the urgency for measures by contracting parties designed to assist less-developed countries in expanding their export earnings, the Committee in its Second Report to the CONTRACTING PARTIES recommended:

"that contracting parties, particularly industrialized countries, should examine tariffs, revenue duties and internal charges, quantitative restrictions and other measures applied by them with a view to facilitating an early expansion of the export earnings of less-developed countries." \(^1\)

The Committee stressed in this context that positive action by contracting parties, particularly industrialized countries, would make the less-developed countries less dependent on external aid, strengthen their economies and accelerate their development. This recommendation of the

\(^1\)See paragraph 14 of the Second Report of Committee II, BISD, Eighth Supplement, page 141.
Committee contained in its Second Report was unanimously adopted by the CONTRACTING PARTIES at their fifteenth session held in Tokyo in November 1959.

11. Since making this recommendation which was based on a preliminary examination of obstacles facing less-developed countries for some major export commodities, the Committee has examined in detail the obstacles confronting less-developed countries in expanding their export earnings with respect to the major groups of commodities selected for examination by the Committee. The obstacles in relation to individual commodities identified by the Committee are summarized in an Annex to this report. The examination has tended to confirm the views expressed by less-developed countries concerning the adverse effects of various commercial policy measures in force in importing countries on the export earnings of less-developed countries. It was only with respect to a very few products of export interest to less-developed countries that the Committee found that trade expansion was not significantly hampered by tariff and non-tariff barriers.

12. One of the most serious barriers confronting the exports of less-developed countries was identified by the Committee as being quantitative import restrictions. Exports from less-developed countries of such important commodities as vegetable oils, raw cotton, tobacco, tropical timber, jute manufactures and cotton manufactures were often adversely affected by quantitative import restrictions which were sometimes applied in a discriminatory manner.

13. The Committee noted that the less-developed countries as a group have not benefited significantly from the widely observed movement towards trade liberalization by industrialized countries as a result of their emergence from balance-of-payments difficulties. In certain instances industrialized countries when proceeding with their programme of relaxation of import restrictions had extended the removal of restrictions only to imports of raw materials while the products processed from those materials had continued to be subject to restrictions. The incidental effect of those measures was to enhance the retarding effect of traditional tariff policies, which favoured imports of the raw materials, on the development and expansion of processing industries in less-developed countries. The Committee considered of great importance that contracting parties in dismantling their import
restrictions, or where they found it necessary because of balance-of-
peyments reasons to retain restrictions, should plan and administer their
import control systems in such a way as to assist less-developed countries
to increase their foreign exchange earnings.

14. The Committee noted with some concern that certain industrialized
countries had liberalized trade on an area basis, while maintaining
restrictions against imports from countries outside the area, most of which
were less-developed countries. The maintenance of such restrictions by
industrialized countries was a serious threat to the orderly expansion of
exports of less-developed countries and to sound patterns of growth in the
international economy; the maintenance of such restrictions had not only
seriously affected export possibilities for less-developed countries, but
had also had the effect of concentrating imports in markets where goods
could enter freely thus sometimes causing considerable strains on the capacity
of those markets to absorb imports without serious repercussions on the
structure of their industries and the level of employment. Moreover, many
of these restrictive measures, particularly discriminatory restrictions,
were in flat contradiction with the obligations of the importing countries
under the General Agreement. The Committee repeatedly stressed the
necessity for a conscientious application of the General Agreement by all
contracting parties. This would in itself go a long way towards removing
many of the barriers at present still confronting exports from less-developed
countries.

15. The Committee also invited contracting parties to give sympathetic
consideration to the removal of measures which, even when applied in
conformity with the General Agreement, had nevertheless been identified as
serious obstacles to an expansion of trade from less-developed countries.

**High revenue duties and fiscal charges** were identified as a major barrier
for such important traditional exports from less-developed countries as
coffee, tea and cocoa and for some of the newer exports of manufactured
consumer goods. In the case of coffee, tea and cocoa, these taxes applied
only to imports from less-developed countries since there was no domestic
production in the countries imposing the taxes. The incidence of revenue
duties on these commodities was particularly heavy in various Western
European countries. A study by the secretariat for example showed that the
removal of internal charges on coffee by three major European countries (the
Federal Republic of Germany, France and Italy) would result in increased
export earnings for less-developed countries, ranging from approximately
$57 million to $98 million per annum, (BISD, 9th Supplement, page 169).
High tariffs, tariff differentiation and preferential tariff arrangements
were also identified as constituting serious barriers to exports from
less-developed countries, particularly with respect to vegetable oils,
coffee, tea, cocoa, jute and cotton manufactures, sports goods and certain
other manufactured consumer goods. The effects of these tariff barriers
and high revenue and fiscal charges on the exports of less-developed countries
is dealt with in some detail in the Annex to this report. Sufficient
instances are cited to demonstrate that reduction of these barriers would,
in relation to a number of important products, be of considerable assistance
to less-developed countries.

16. The Committee has welcomed the consideration which had been given by
the CONTRACTING PARTIES to ways and means of permitting a meaningful participa-
tion of primary-producing and less-developed countries in the present
general round of tariff negotiations. They noted and welcomed that the
amended Rules and Procedures for the Tariff Conference recognized in principle
the negotiability of a number of non-tariff measures, such as internal taxes.
The Committee expressed the hope that contracting parties, when entering into
negotiations, would give sympathetic consideration to the needs of less-
developed countries, by negotiating concessions with respect to those
products and measures which were of particular export interest to less-
developed countries and urged the less-developed countries to submit request
lists on such items. Moreover, the Committee expressed the hope that
contracting parties during the negotiations would keep in mind the needs
of less-developed countries as stipulated in Article XXVIIIbis:3(b) of the
General Agreement, for a more flexible use of tariff protection, particularly
to assist their economic development. The Committee noted in this context
the statement of the representative of the EEC to the Tariff Negotiations
Committee to the effect that the European Economic Community was not
considering requesting full reciprocity from less-developed countries
during the Tariff Conference. The Committee considered that such a sympathetic
attitude by all industrialized countries towards meeting the special needs of
the less-developed countries would permit meaningful concessions to be
negotiated.

17. The Committee noted that the generally favourable economic conditions
prevailing in most industrialized countries should permit a more rapid
progress in the removal of restrictions still affecting the export trade of less-developed countries. While the economies of industrialized countries in the wake of increased levels of trade had continued to expand, export earnings of the less-developed countries as a group had remained stagnant. Despite the maintenance of stringent import régimes in recent years in most of the less-developed countries as a result of their low levels of foreign exchange resources, the tendency for aggregate import expenditures to continue far in excess of the import capacity generated by actual exports had persisted and even increased since the mid-1950's.

18. The urgency and magnitude of the problem of financing imports is well illustrated by the fact that the trade deficit of the non-industrial area as a whole increased from $7,000 million during the five-year period 1950-54 to more than $18,000 million during the five-year period 1955-59. This increase took place despite stringent import policies followed by most of those countries during this period and despite an actual decrease in overall imports into this group of countries in 1958 and 1959. The Committee recognized that unless less-developed countries were in a position to finance an increasing level of imports of capital equipment, essential raw materials, etc., the efforts of the less-developed countries to improve the standard of living of their people and to achieve self-sustaining growth would be seriously jeopardized. In this regard the Committee noted that according to one estimate, which might be taken as an indication of the overall problems involved, if less-developed countries were to increase per capita incomes, even by 3 per cent per annum, aggregate import outlays of the less-developed countries would have to be increased from approximately $20,000 million at present to approximately $60,000 million (at constant prices) by 1980. Even if a substantial increase in international financial assistance should be forthcoming in the form of grants and loans and even if account is taken of the possibilities offered to less-developed countries in

1The non-industrial area above referred to includes all countries except Japan, countries in Western Europe, Eastern Europe, North America, the oil-producing countries and mainland China.

2See International Trade 1959 page 39 (?)

3See U.N. Economic Survey of Europe 1960, Chapter V
expanding intra-regional trade, there will remain a gap of alarming proportions which was not likely to be bridged unless the industrial countries were prepared to import not only increasing volumes of traditional exports but an increased volume of manufactured goods from less-developed countries. The political as well as the social and economic implications of failure to close this gap cannot be ignored.

19. The Committee agreed that it was of the utmost importance that commercial and economic policies in industrial countries should be so orientated as to enable less-developed countries to enjoy a satisfactory rate of growth. The Committee recognized the problem created by the emergence of new patterns in international trade and recognized the desire of the less-developed countries to see a progressive shift of productive resources of the industrialized countries towards the more complex forms of manufacture. The strengthening of the capacity of the less-developed countries to import, as a consequence of being permitted to increase their exports of those products they are best equipped to supply, would be matched by a corresponding growth in their commercial purchases of all kinds of goods. Thus any decline in affected sectors of manufacture in the industrialized countries would be adequately compensated for by increased export demand for the products of their capital intensive industries - industries which the more industrialized countries are best equipped to expand. The end result would be a better utilization of resources and a substantial contribution to world trade and general world prosperity would have been made.

Part IV
Conclusions

20. The foregoing analysis of the Committee's work, together with the detailed survey of problems in relation to individual commodities and groups of commodities set forth in the Annex to this report, highlights the need for urgent consideration and action by contracting parties aimed at removing or reducing the main obstacles to the development of the export trade of the less-developed countries.

21. The Committee has noted with regret that only limited progress has been reported in response to the recommendations of the Committee in removing the identified barriers to the trade of less-developed countries. In the
main relaxation has been confined to the removal of quantitative restrictions in fulfilment of normal GATT obligations. Only a few contracting parties have so far taken action with regard to the reduction of tariffs and internal fiscal charges and other non-tariff barriers. The Committee now suggests that contracting parties should give urgent attention to action they might take with regard to the following instruments of their commercial policies:

1. Quantitative import restrictions

22. The Committee's work shows that, despite a general improvement in the balance of payments of many important importing countries, quantitative restrictions continue to be applied against certain major exports of the less-developed countries, for example, vegetable oils, timber, cotton textiles, jute manufactures, sewing machines. Furthermore, certain import restrictions continue to be applied in a discriminatory manner with substantial adverse effects on the exports of the less-developed countries.

2. Tariffs

23. It has been shown that high tariffs and differential tariffs in favour of imports of raw materials as compared to duties for processed goods, exist on a number of important commodities, for example cocoa, vegetable oils, leather goods, cotton textiles and wrought copper. In addition, certain tariff preferences have had an influence on the direction of trade - tariff preferences on tropical timber provide one illustration of this effect.

3. Revenue duties and internal fiscal charges

24. As a result of high revenue duties and fiscal charges, the total tax incidence is very high on a number of commodities of export interest to less-developed countries, particularly with regard to such traditionally important exports as coffee, tea and cocoa. These commodities are produced almost exclusively by less-developed countries and are in a number of cases their most important foreign exchange earners. The Committee again draws attention to the benefits which would accrue to the export trade of the less-developed countries if these obstacles were modified in a substantial downward direction.

4. State monopolies

25. In the Annex to this report some comments are given on the purchasing and price policies of State monopolies, especially in relation to tobacco,
coffee and cocoa. The Committee feels that importing countries adopting the State monopoly system might well re-examine their existing policies with regard to imports to see not only that they provisions of Article XVIII are fully adhered to but also to examine whether there is additional scope for providing encouragement to the exports of less-developed countries, for example, through modification of pricing policies.

5. Other barriers

26. The above list of the principal obstacles to the expansion of trade of less-developed countries is by no means exhaustive. For example, it has been contended that mixing regulations adopted by a number of countries have had harmful effects on trade especially in relation to vegetable oils.

27. There are, however, other technical regulations and certain restrictions imposed by a number of contracting parties in connexion with the pursuance of the aims of their respective national agricultural and fishery policies which the Committee considers might be reviewed in the light of the recommendations contained in this report.

28. The seriousness of the problems facing less-developed countries has been made clear in other organizations as well as in the GATT. Substantial efforts are being made in those other bodies to develop programmes of financial aid. The Committee feels, however, that in the field of trade, the CONTRACTING PARTIES are in the position to make a most useful contribution which, as this report points out, will not only serve to assist the short-term and long-term interests of the less-developed countries, but will also reinforce the prosperity of their trading partners as well.
FINDINGS OF THE COMMITTEE

... Obstacles to trade identified by the Committee in its examination of selected commodities

General

1. The products which were examined by the Committee with a view to identifying the major obstacles to an expansion of exports of less-developed countries may be classified into three major categories:

   (1) tropical agricultural products and foodstuffs
       cocoa; coffee; tea; vegetable seeds and oils; cotton; tobacco; and canned fish;

   (2) industrial raw materials and semi-manufactures
       iron ore; copper; copper rollings; lead; ferro-chrome and ferro-manganeso; bauxite, alumina and aluminium; timber; phosphates, and cement;

   (3) manufactured goods ((a) traditional exports; (b) light engineering goods)
       (a) cotton manufactures; jute manufactures; coir manufactures; finished leather, leather footwear and leather goods, and sports goods; and
       (b) bicycles; sewing machines; electric fans; electric motors; diesel engines, and steel furniture.

2. In undertaking an examination of the obstacles facing an expansion of exports of these products on a priority basis the Committee had in mind that these products entered importantly into international trade and that a number of them, mainly tropical agricultural products, certain industrial raw materials and certain simple manufactures, accounted for a large or major share of the export earnings of one or more less-developed countries. Thus, action by contracting parties in reducing or eliminating obstacles identified by the Committee with respect to these commodities could be expected to contribute significantly and fairly quickly to the capacity of less-developed countries to increase their foreign exchange earnings. The examination of obstacles confronting exports from less-developed countries of such products as light engineering goods was
undertaken because it was realized by the Committee that possibilities for the expansion of earnings from traditional exports were by necessity limited and small in comparison with the huge needs of less-developed countries to continue to increase their foreign exchange receipts. Although these "newer" lines of exports from less-developed countries were not yet exported in any large quantities, they represented one of the most promising fields for less-developed countries for expanding their export trade. The Committee also had in mind that an expansion of these newer lines of exports would contribute to an early diversification of production in the less-developed countries and would thus add to greater stability of their economies.

(1) Tropical agricultural products and foodstuffs
   (a) Cocoa, coffee and tea

3. The expansion of exports of cocoa, coffee and tea was found to be particularly affected by high revenue duties and internal fiscal charges in force in a number of countries in Western Europe. For example, in a few major European countries taxes on coffee, together with the tariff rates imposed, resulted in an overall level of taxation of imports of coffee into these countries which, in a few cases, amounted to more than 100 per cent of the ad valorem equivalents. The tax on tea in some of these countries, expressed by weight, was even higher. Duty rates on cocoa, in these countries were very high also, reaching a level equivalent to 50 per cent ad valorem in one European country for cocoa beans; additional charges being imposed on cocoa products. Most members of the Committee agreed that these high levels of taxation had a pronounced inhibiting effect on consumption as was evidenced by comparing consumption figures between countries with different levels of taxation. The effect of these high taxes was to limit export opportunities for producing countries, which - without exception - were less-developed countries, many of which were dependent on exports of these commodities for a large or major share of their foreign exchange earnings. Coffee, for example, which was exported by fourteen countries in Latin America, two countries in Asia and a number of African countries, accounted for more than 70 per cent of the foreign exchange earnings of at least four countries and for more than 40 per cent of the export earnings of two other countries. With respect to cocoa, more than 60 per cent of the export
receipts of one less-developed country was derived from this commodity and the commodity was important in the export trade of a number of other less-developed countries. Tea, which was an important export commodity for many less-developed countries, was the most important source of export earnings for one of the less-developed countries and the second largest export commodity of another.

4. In view of the great importance of these commodities to the export trade of a great number of less-developed countries, coffee being the second largest commodity in international trade, the Committee undertook an examination of estimates on the possible effects of the total or partial abolition of internal taxes in three Western European countries (the Federal Republic of Germany, France, and Italy) on the import demand for coffee, and the effect of such action on tax revenue in the countries concerned. The Committee assumed that mutatis mutandis the results obtained from this particular study would in a general way also give an indication of the effect of the abolition of such taxes on consumption and trade in cocoa and tea. While the Committee did not arrive at definitive conclusions, most members of the Committee agreed that it was probable that, although in the short term the loss in public revenue resulting from the reduction or elimination of high fiscal charges in the three countries examined would exceed the increase in import outlays by these countries, in the long term this relationship would be changed. The Committee also considered that, whatever the exact relationship between an increase in import demand and possible revenue losses, the removal or considerable reduction of high revenue duties and fiscal charges, particularly by the countries referred to above, would encourage increased consumption and thereby make a most useful contribution to the foreign exchange earning capacity of exporting countries.

5. In discussing possibilities and prospects for the reduction or removal of high revenue duties and fiscal charges on those commodities by industrialized countries, the Committee recognized that the changing of a fiscal system was a complex matter with wide financial and other consequences which had to be taken into account. However, bearing in mind the urgent development needs of less-developed countries and the current financial and economic situation in the industrialized countries,
the Committee urged the contracting parties concerned to re-examine their internal revenue and fiscal charges on these products with a view to taking positive action at an early date.

6. In the discussion of obstacles other than revenue duties and fiscal charges facing an expansion of export of these commodities in certain markets, members of the Committee noted the very great difference in the import and sales prices in certain State-trading countries and the inhibiting effect of the resulting high retail prices on the consumption of these products. It was stressed that reductions in the difference between import and sales prices, combined with decisions by these countries to import larger amounts of these products, could make a significant contribution to an expansion of the export earning capacity of less-developed countries.

7. Members of the Committee representing certain less-developed countries repeatedly stressed that tariff differentiation according to origin, which also affected these commodities was a matter of concern. They expressed the hope that the adverse effects of such tariff differentiation on the export trade of their countries with respect to cocoa, coffee, and tea, as well as other products of export interest to them would be lessened or eliminated as a result of the present general round of tariff negotiations.

(b) Vegetable oils, raw cotton, tobacco /and fish products/

8. The Committee noted that the export trade in oilseeds and especially the trade in the processed product, was in many instances limited by a high degree of protection which operated both through tariffs and to a marked extent also through quantitative restrictions, State-trading practices, mixing regulations and other measures. It appeared that protection was afforded not only to agricultural producers of these commodities and to the vegetable oil producing industry in importing countries, but often was imposed also on behalf of producers of substitute commodities. The Committee agreed that the widespread differentiation in import treatment, according to the stage of processing, in favour of imports of the raw material, was a factor unfavourable to the development of oilseed processing industries in less-developed countries. The Committee noted that a number of less-developed countries who possessed the raw materials found themselves able to export only relatively small
quantities of certain vegetable oils while large exports of these vegetable oils took place from many industrial countries who did not produce the raw material. The differential treatment of imports of vegetable seeds and vegetable oils not only led to under-utilization of existing capacity in less-developed countries which lacked neither the know-how nor the technical resources for efficient production but also prevented expansion of production in the less-developed countries in channels which were economically desirable. With a view to permitting less-developed countries to make full use of raw material and manpower resources, less-developed countries urged industrialized countries to give sympathetic consideration to increasing export possibilities for less-developed countries for vegetable oils, notwithstanding the difficulties which might arise in some instances from the surplus conditions characterizing the world market for dairy fats and other animal fats, which were competitive with and substitutes for vegetable oils.

9. The Committee found that export possibilities for raw cotton, one of the three main primary products in international trade, which was produced by a considerable number of less-developed countries and which accounted for a very substantial share of export earnings for some of these countries, were also unfavourably affected by high tariffs and quantitative restrictions which were imposed by some countries on the import of raw cotton. Members of the Committee pointed out that these restrictions in many cases led to considerable hardships for cotton producers in less-developed countries, especially because of the relatively low capacity of these countries to absorb unemployment with sufficient rapidity through an expansion of other industries. The Committee noted, however, that with these exceptions the export trade in raw cotton was not as seriously restricted by tariff barriers and other measures as certain other commodities examined by the Committee.

10. With respect to tobacco, the Committee noted that a number of less-developed countries were heavily dependent on exports of this commodity; for many other less-developed countries, tobacco played a not unimportant rôle in their export earnings. While it was recognized by the Committee that heavy taxation on tobacco and tobacco products was imposed by
governments for a variety of reasons on which the Committee would not wish to pass judgement the Committee felt that these tax measures should in no case afford undue protection to uneconomic producers or be operated in a manner favouring particular sources of supply. The Committee stressed that foreign producers should be given reasonable access to markets. The Committee also noted that in some cases the activities of State monopolies resulted in absolute protection to domestic producers and in severe quantitative restrictions on imports of tobacco. Also there was often considerable uncertainty about the purchasing policies of some State-trading monopolies, particularly whether these policies afforded adequate opportunities for all sources of supply to sell tobacco on the basis of quality and price. Members of the Committee noted the element of discouragement to the development of processing industries in less-developed countries resulting from differentiation according to the stage of processing particularly in those tobacco-producing countries whose exports of tobacco products did not enjoy preferential import treatment.

11. Fish products . . . to be completed in the light of the discussion at the next meeting of the Committee.

(2) Industrial raw materials and industrial semi-manufactures

12. In discussing prospects for an expansion of export earnings of less-developed countries from increased exports of industrial raw materials the Committee recognized that although exports of industrial raw materials could be expected to expand in volume, a number of factors militated against a correspondingly rapid increase in money value. The Committee agreed that the most obvious means of expanding the value of exports from less-developed primary producing countries would be for them to undertake some degree of processing of their raw materials. In practice, however, this processing was at present largely concentrated in the industrial areas. The Committee recognized that the structure of the international economy, with processing and manufacturing concentrated in certain areas, was the result of many factors operating over a long period of time. Nevertheless, it had to be recognized that the maintenance by many industrialized countries of traditional tariffs which were more liberal towards raw
materials then towards semi-processed goods, was a factor in retarding the development of processing industries in less-developed countries.

13. The Committee pointed out that the establishment or expansion on a sound economic basis of the processing of locally produced raw materials and export of the processed product would increase the ability of the primary producing countries to increase their foreign exchange earnings and would contribute to a desirable diversification of the economics of less-developed countries. This would also create employment which was necessary not only for human and political reasons but for generating and distributing additional purchase power. Having those considerations in mind, the Committee considered that the reduction of barriers to an expansion of exports of semi-processed products from less-developed countries would be a logical direction in which the industrialized countries could enlarge the trading prospects of the less-developed countries.

14. Apart from the tariff differentiation referred to above, which, it was recognized, had an adverse effect on the expansion of exports processed from such industrial raw materials as iron ores, copper and bauxite, others possibly to be added in the light of discussions at the forthcoming meeting, most members of the Committee considered that commercial policy measures were not unduly hampering trade in those commodities. Difficulties often arose, however, from developments which were not directly connected with commercial policy, such as general economic conditions, price fluctuations and changing patterns of consumption.

15. Increased exports of timber from less-developed countries were limited, in certain instances, by quantitative restrictions, including discriminatory restrictions imposed by some countries, particularly with respect to certain special varieties of tropical timber exported by two African countries. Exports of timber were also limited by tariff differentiation according to origin in some important markets. The Committee repeatedly stressed the importance to specific exporting countries of the rapid abolition of the remaining discrimination and the complete removal of quantitative restrictions.

16. With respect to lead, the Committee had decided not to undertake a full discussion of the obstacles facing exporting countries in view of the efforts being made simultaneously by the United Nations Lead and Zinc Study Group for bringing about a solution to the difficulties affecting the producers, importers and exporters of lead.
(3) Manufactured goods

17. In examining the prospects for the expansion of export earnings from manufactured products, the Committee recognized that it was not an unnatural tendency for the less-developed countries to turn in the first instance to the simpler and more labour-intensive forms of manufacture (such as jute manufactures and cotton textiles) to find employment for large numbers of people. As industrial skills and habits were acquired by these countries, they could be expected to turn to other lines of production such as the light engineering industries, chemical and pharmaceutical industries, etc. The Committee noted that, paradoxically, some of the most serious obstacles in industrialized countries to an expansion of exports from less-developed countries existed with respect to those simple manufactures which the developing countries, by reason of the availability of raw materials, manpower and skills, were best fitted to produce. Jute manufactures and cotton textiles, for example, were particularly affected by severe quantitative restrictions imposed by many countries on imports of those goods from so-called low-cost countries, and also by high tariffs. The expansion of exports of those commodities was of vital interest, however, to a number of less-developed countries and territories, for example India, Pakistan and Hong Kong, all of which were in a position to expand exports of those commodities on the basis of installed capacity and available resources and all of which depended for a very large part of their total export earnings on those commodities.

18. With respect to sports goods, the Committee found that although there appeared to be a rising trend in demand for those products, possibilities for less-developed countries to share in the expanding markets of industrialized countries were limited by the widespread use of high tariffs. The Committee agreed that it would be desirable if contracting parties would keep their tariff and non-tariff measures under review with a view to providing larger and increasing possibilities for less-developed countries to share in their market for sports goods. The Committee noted in this connexion that these products were among the most important exports for one or two of the less-developed countries and played an important rôle in employment in certain areas of those countries.
19. Export prospects for leather goods and leather footwear, with certain exceptions, were found to be less affected by quantitative restrictions in importing countries. An expansion of exports of these items was unfavourably affected, however, by the practice noted above with respect to other products of granting relatively more liberal tariff treatment to unprocessed materials than to semi-manufactures and to the finished product. At present about three quarters of all imports of hides and skins into Western European countries, North America and Japan originated in less-developed countries. The Committee recognized the desirability for the less-developed countries which possessed the necessary materials and skills to increase their export earnings and to diversify their economies through the increased export of finished leather and leather products.

20. Members of the Committee also noted as an obstacle to trade expansion, internal fiscal charges imposed by a large number of contracting parties on leather products. The Committee invited contracting parties, when reviewing their fiscal systems, to give sympathetic consideration to measures of benefit to less-developed countries in expanding their export earnings.

21. In its examination of export prospects for certain light engineering goods which a few less-developed countries had started to export, the Committee noted the very great efforts and the remarkable progress which had been made by a number of less-developed countries in expanding production of such products. With respect to a number of these items, certain less-developed countries were in a position to export a quality product at competitive prices given more liberal access to export markets than at present. The Committee found that exports of such items as agricultural implements, machinery, builders' hardware, electric motors and pumps produced, for example, by India were on the whole not subject to quantitative restrictions in markets of industrialized countries. On the other hand, exports of other items such as sowing machines and bicycles, which could be considered as being among the potentially more important foreign exchange earners in this category of exports remained subject to restrictions in a number of industrialized countries. Moreover, many light engineering goods, as well as other manufactured products, were subject to customs duties at such a level as to seriously affect trading opportunities.
22. The Committee recognized that, in addition to tariff and non-tariff barriers affecting exports of the "newer" lines of exports, less-developed countries were faced with considerable problems in expanding exports of manufactures as export expansion for these categories of goods presupposed not only considerable skill and experience in industrial techniques, but also considerable efforts in the field of product design, trade promotion and the provision abroad of sales and servicing facilities for establishing these products in new markets. Members of the Committee urged therefore that contracting parties, bearing in mind the technical difficulties experienced by less-developed countries in establishing their products in new markets, assist less-developed countries in expanding exports of manufactured products, by reducing and eliminating tariff and non-tariff barriers which had been found to affect export opportunities for less-developed countries.

23. The Committee recognized that the reduction and removal of obstacles to increased imports of these "newer" categories of exports was bound, in the first instance, to benefit the industrialized countries which were the major exporters of these commodities. Nevertheless, the early removal of obstacles to trade in these products was of great importance to the less-developed countries. The assurance of liberal access to foreign markets, particularly markets of industrialized countries, was of urgent importance because action in this field would not only make an immediate contribution to the export earnings of less-developed countries but also help to determine their pattern of industrial growth. Therefore, although exports of these items may not at present figure to any significant extent in the export trade of less-developed countries, this should not prevent contracting parties taking action which would, especially in the long term, be of assistance to less-developed countries. The removal of obstacles to exports of traditional products was of equally great importance because at present and for a considerable time to come it was these exports which would provide the greater part of the foreign exchange earnings of less-developed countries. Indeed the present relatively small overall export earnings of the less-developed countries underlined the necessity for contracting parties, particularly industrialized countries, to take early and energetic action in the reduction and removal of obstacles facing
commodities, traditional exports as well as the simpler types of manufactures, which less-developed countries were in a position to supply in increasing quantities given more favourable import treatment by importing countries.

B. Findings of the Committee with respect to the examination of the Third Five-Year Plan of India

24. In the examination of the trade and payments aspects of the Third Five-Year Plan of India, the Committee was impressed with the magnitude of the task before the Government and people of India in increasing per capita incomes from their present low levels and their efforts to making the economy self-sustaining. The Committee noted that for achieving those ends a great deal of foreign exchange would be required for maintenance imports, for investment and for servicing foreign indebtedness having regard to the ultimate goal of achieving a capacity for self-sustaining growth. While foreign financial assistance for the implementation of the Plan was of the greatest importance, the Plan envisaged that over one quarter of total investment in the Third Plan would have to be financed out of external resources - such aid alone could in the long term not be considered a satisfactory alternative to significantly increased foreign exchange receipts from exports. Rapidly and significantly increasing foreign exchange earnings were also of vital importance for servicing and amortizing India's increasing foreign indebtedness. The Committee welcomed the intention of the Government of India to close the increased gap between resources and requirements resulting from the slight upward revision of envisaged investment outlays in the Third Plan which it had been necessary to make to achieve the Plan targets, by making every effort to increase earnings from exports, even where this meant sacrifices in meeting domestic consumption needs.

25. While recognizing that export targets for some products would show some slight upward revision in the final version of the Third Five-Year Plan, the Committee nevertheless considered that overall export targets in the Plan, being only 12 to 13 per cent above anticipated export earnings for the whole of the Second Plan, were very modest in relation to the need for increased foreign exchange earnings and in relation to the possibilities for India to expand the range and volume of its exports given more liberal access to important export markets. In this regard the Committee recognized
the need for India and other less-developed countries to fully explore the use of sales technique and export promotion. The Committee noted, however, that in view of the fact that about two-thirds of the country's export trade was faced with obstacles of various kinds in importing countries, export targets in the Plan had had to be drawn up in a spirit of cautious realism. It was noted on the other hand that, due account being taken of possible difficulties in developing larger supplies for export, the Indian authorities considered that given more liberal access to certain foreign markets, exports of many major commodities could be expanded within a short time-span and with but little extra effort. For example, there existed sufficient installed capacity in India for jute manufactures and possibilities for significantly and rapidly increasing production of tea, for example, by increased application of fertilizers. Similarly, an expansion of production and exports of cotton textiles, which had had to be curtailed in view of the disappointing export realization in past years, was well within the capacity of India. The Committee agreed with the representatives of India that further investment in these industries, desirable as it might be for increasing productivity, could hardly be justified, however, as long as export markets for these commodities were limited by severe quantitative restrictions and high tariffs (cotton textiles, jute manufactures) and high levels of taxation (tea) in the potentially more important consuming countries. The Committee, noting the impact of measures by importing countries on India's export earning capacity with respect to these three groups of commodities which continued to account for almost 50 per cent of India's export earnings, urged contracting parties, particularly industrialized countries, to review their respective import policies and, where applicable, fiscal systems, and to proceed as rapidly as possible to measures giving effective assistance to less-developed countries in expanding their export earnings from those as well as other commodities of export interest to less-developed countries such as India.