GENERAL AGREEMENT ON
TARIFFS AND TRADE

Group of Experts on Financial Assistance

SUMMARY OF DISCUSSION IN THE GROUP
ON 27-29 JANUARY 1964

1. The Group of Experts was established on the recommendation of Committee III at its meeting on 21-31 October 1963. Its task was to study the work of GATT in regard to the problems of relationship between trade and financial assistance, and to report to the Council (L/2080, paragraph 34).

2. The Group met on 27-29 January 1964, under the Chairmanship of Minister Paul Jolies, delegate of the Federal Council for Trade Agreements (Switzerland). The meeting was attended by experts from Argentina, Belgium, the Federal Republic of Germany, Ghana, India, Italy, Japan, Kingdom of the Netherlands, United Arab Republic, United Kingdom, United States, the Commission of the European Economic Community, the International Bank for Reconstruction and Development, the International Monetary Fund, the Organisation for Economic Co-operation and Development, and the United Nations. Observers from Czechoslovakia, Indonesia, Norway, Portugal, Switzerland, Sweden and the Council of Ministers of the European Economic Community were also present.

3. Opening the meeting, the Chairman traced out the origin of the Group, which lay in a proposal by the United Arab Republic.

4. The expert from the United Arab Republic reiterated and described the proposal in his statement (reproduced in full as document COM.III/125 and also attached to the Report of the Group, COM.III/127). He stated that while specific points of the proposal would require further elaboration, its basic objectives were to arrange for effective ways and means of co-operation in the field of trade and aid relationships between the CONTRACTING PARTIES and other international organizations, and stressed that it was not its intention to convert the GATT into a lending agency.

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1 As the session of the CONTRACTING PARTIES precedes that of the Council, the report will in fact be presented to the former.
5. The representative of the United Nations, expressing his delegation's eagerness to help in the work of the Group, stated that the United Nations Organization was engaged in a number of activities relevant to the Group's work. Firstly, his organization provided a forum for periodic inter-governmental examination of trade and aid problems, which are regularly reviewed by the General Assembly and other organs of the United Nations. The question of financing the expansion of international trade was one of the main topics of the forthcoming Conference on Trade and Development. Secondly, his organization provided an instrument for institutional co-operation among member governments; examples in the field of finance were the Special Fund and the African Development Bank. The possible establishment of a United Nations Capital Development Fund was also being studied. Thirdly, the United Nations carried out research designed to stimulate financial assistance to developing countries, and studies - such as those on national economic planning and planning techniques - which contribute to a co-ordination of trade and aid policies. He pointed out that in all this work his organization had the closest relationship with GATT, the International Bank for Reconstruction and Development and the International Monetary Fund, and was in close touch with the Organisation for Economic Co-operation and Development at the secretariat level. In particular as regards studies of compensatory financing, which arose from the work begun by the United Nations Commission on International Commodities Trade, forces had been pooled with other international agencies.

6. The representative of the International Monetary Fund noted the very long and very close collaboration between the Fund and GATT. Describing the activities of the Fund, he underlined that among its purposes was "to facilitate the expansion and balanced growth of international trade, to contribute thereby to the promotion and maintenance of high levels of employment and real income and to the development of the productive resources of all members as primary objectives of economic policy". The International Monetary Fund took a close interest in both the short and long-term problems of the developing countries, and considered that its activities could provide valuable assistance in helping to establish a climate within which longer-term measures could be more effectively pursued. The measures undertaken by the Fund included short-term financial assistance, consultation and technical assistance. Gross financial assistance up to that time to countries other than the United States, Canada, Japan, and the countries of EEC and EFTA had amounted to about $4,600 million representing about 145 to 150 drawings by primary producing countries. Consultation and technical assistance involved a great number of visits to the countries concerned; technical assistants were stationed for longer periods in twelve to eighteen countries. While drawings dealt with temporary balance-of-payment swings and were repayable within up to three to five years, access to Fund financing enabled members to adjust their positions less abruptly and in a more orderly manner, and thus to prevent disruption of development programmes. Moreover, the Fund's activities in giving advice and technical assistance also contributed to these countries' development efforts. Finally, the speaker described the Fund's new temporary compensatory facilities which gave special
financial assistance in addition to that available under the Fund's normal policies to countries facing sharp decreases in the value of their exports. He noted with pleasure that this new policy had been well received by member countries and by international bodies, in particular the United Nations Commission on International Commodity Trade, and had already been used by Brazil and the United Arab Republic, which had drawn $60 million and $16 million, respectively.

7. The representative of the International Bank for Reconstruction and Development (Mr. Miller) recalled that his agency was established to help its member countries by the financing of the foreign exchange requirements of projects needed for their development. The IBRD's lending rate depended on the rate at which it could borrow in the world's markets as the subscriptions of members now provided no more than two fifths of the funds on loan. The growing indebtedness of some of the less-developed countries had led to the creation of the International Development Association in order to help those whose balance-of-payments situation did not permit them to borrow on normal bank terms; the International Development Association charged no interest and only a 3/4 per cent service fee, with up to fifty years for repayment. The Association's funds were limited, amounting to $150 million per year during its first five years, and about $250 million per year during the next three. This was not sufficient to meet all requirements and IDA money had to be rationed. At the last Annual Meeting the President, Mr. George Woods, had made a number of proposals for broadening the scope of the activities of the Bank and IDA - among them an increase in technical assistance for the selection and preparation of projects in less-developed countries, a lending programme for education in co-operation with UNESCO, and for an increased lending programme for agriculture in co-operation with FAO. Other proposals were to vary the terms of lending by lengthening the period of repayment where justified and for a programme of assistance to industry which would contribute directly to the diversification of the economies of the less-developed countries.

The delegate of the United Arab Republic in his statement had concentrated on the promotion of exports but the Bank gave equal importance to the saving of imports when considering the financing of new industries. The other representative of the International Bank for Reconstruction and Development (Mr. Karasz) said that if less-developed countries were to reduce their debts through expanding their exports, the problems facing trade had to be solved. Referring to the United Arab Republic's proposals for joint meetings of lending agencies and the CONTRACTING PARTIES, he was happy to announce his organization's readiness to co-operate. The Bank's basic purpose had always been to finance investment to increase production in member countries. It was understood that GATT was the expert body on trade; the Bank would always be grateful for its help in reconnoitring the economies of the Bank's member countries. The Bank worked in two steps, the first of which consisted of sending a mission to study a country's economic conditions and establish its credit-worthiness, for instance by seeing whether it had economic projects, and was able to implement them;
the second step concerned the legal and financial aspects of lending. The first represented a field for close collaboration, in which GATT could serve as an expert to the Bank and to other organizations to advise on the possibilities of diversification and help in the preparation of projects.

8. The representative of the Organisation for Economic Co-operation and Development referred to a statement by the representative of his Organisation, to a meeting of Committee III, agreeing to co-operate with the GATT in the country studies of trade and aid and calling attention to one of the purposes mentioned in the Convention of the Organisation, i.e., to contribute to sound economic expansion in member as well as non-member countries in the process of economic development. The steps OECD had taken towards the objectives of the Convention had also been reported to that meeting, and attention had been drawn to a resolution adopted by the Ministerial Council of the Organisation, on the co-ordination of trade and aid policies of member countries. The representative referred to the activities of a working party of the Development Assistance Committee concerned with the terms of aid which had agreed on the need for member countries to secure comparability in the terms and conditions of their aid, involving a liberalization in certain cases. Progress had been made, as shown by a report of the Chairman of that Committee: only about 40 per cent of new loan commitments in 1962 were at interest rates of 5 per cent or above, compared to 70 per cent in 1961; loans at less than 3 per cent rose from 18 per cent in 1961 to 40 per cent in 1962, and the proportion of loans for twenty years or more from about one third to over one half. The annual report of the DAC had also drawn attention to the great importance attached to the co-ordination of trade and aid policies. The OECD was in close touch with other international organizations; there was close co-operation at the secretariat level with the United Nations; the International Bank for Reconstruction and Development and International Monetary Fund were regular observers at the Development Assistance Committee and its working party on the terms of aid, and close co-operation with GATT had been begun.

9. The representative of Argentina stressed the urgent need for the gap between fast rising import needs of developing countries and their slower growing export earnings to be filled by both trade and aid, the latter supplementing the former. The less-developed countries lived in uncertainty, their precarious balance-of-payments position jeopardizing the financial basis of their development plans. All ways and means of financing should be investigated, and terms for assistance should be eased. Multilateral aid was to be preferred, bilateral aid was not always suited to these countries' conditions. Aid given by international agencies should also be more liberal, and better adapted to each country's situation. He suggested that GATT act as a co-ordinator of developing countries' requests for loans, and also analyze the form in which such assistance can best be given. Pointing to the political risks to investment and the insufficiency of existing guarantees, he suggested the adoption of a multilateral approach through the setting up of a guarantee fund with the participation of investing and receiving countries. In view of the forthcoming United Nations Trade Conference, he did not, however, think that a decision should be taken.
10. The representative of Ghana also welcomed the initiative taken by the United Arab Republic. He underlined the importance of the relationships between trade and aid. The two were complementary, and aid must supplement trade if the gap between export earnings and import requirements is to be narrowed. Stable export prices were needed, but so was aid. He wished to express the less-developed countries' recognition and appreciation for the aid given by the lending agencies; more massive aid on more liberal terms was however still required. He therefore welcomed and supported the proposals, which were not meant to substitute existing agencies, but to supplement them and to bring GATT into the general picture of aid-trade relationships. The GATT should be a middle-man between lenders and borrowers, in a joint triangular effort.

11. The representative of India stated his Government was carefully studying the proposals of the United Arab Republic. He noted that they were not intended to transform GATT into a lending institution; he recognized that the idea of the proposals is to establish a very practical and realistic relationship between the structure of trade of the developing nations and the aid they receive. He supported the representative of Ghana in that aid received by many nations was insufficient to offset their trade losses. GATT, as a very worthy spokesman of the developing countries and indeed of all the CONTRACTING PARTIES, should be entrusted with the task of establishing the relationship between trade and foreign aid.

12. In the discussions several speakers observed that compensatory financing had been studied for considerable time elsewhere, notably in the Commission on International Commodity Trade, and would again be discussed at the United Nations Conference on Trade and Development. It was the view of these speakers that the GATT should not be expected to undertake activities which were primarily of a banking and financing nature. In any case, the mere establishing of new institutional arrangements was not likely, in itself, to bring about any increase in the resources available for financial aid. The difficulty of usefully examining certain other aspects of the proposals in the short time available was also noted. However, members of the Group felt that the basic objectives of the proposals should be carefully discussed, in particular as regards the role of GATT in aid-trade relationships and the contribution it could make, by virtue of its expertise and experience in trade matters.

13. The representative of the United States said his Government was conscious of the need to provide assistance on terms appropriate to the developing countries. As an example of the way the United States Government was already contributing to the objectives of the United Arab Republic's proposal, he stated that bilateral aid in the form of grants including assistance in the form of food exceeded $3 billion in 1962; in addition to this his Government had extended loans to the extent of $1.63 billion. The average maturity time of loans was 29.9 years and the average interest rate 2.6 per cent, about 1.3 per cent less than the current domestic market rate in the United States. In lending, decisions should take account of a country's trade and balance-of-payments situation and his Government was in favour of giving consultations a broader base. The United States was also looking forward to the development studies being carried out by GATT or in collaboration with other agencies. GATT should provide its expertise to ensure that trade considerations fully entered into lending decisions, and the co-operation between GATT and lending bodies should be further systematized.
14. The representative of the United Kingdom, giving recognition to the objectives underlying the United Arab Republic's proposal, pointed out that one half of the aid given by his country was in the form of grants or non-returnable subscriptions to international organizations. The United Kingdom had moved appreciably in the direction of softer lending, in particular by way of grace periods for repayment and in some cases by way of seven year waivers of interest. GATT should be neither a lender, nor strictly a sponsor of lending. It was however very important that trade considerations should be sufficiently taken account of when financial assistance was under consideration. Expertise in the trade field was a scarce resource and it should be GATT's task to contribute in this field. Not only should there be close and regular contacts, but the lending agencies such as the Bank and IDA might consult GATT on specific trade questions. They and the OECD should co-operate with the GATT as far as possible in the work on development plans.

15. The representative of the Federal Republic of Germany stated in relation to the broad objectives underlying the proposal that in the period 1950-63, aid by his Government for developing countries had amounted to DM23 billion, of which DM2.8 billion had come from public funds, split equally between bilateral and multilateral aid, while DM10.1 billion were represented by private contributions. He also pointed out that the percentage of loans at less than 3 per cent had risen to 37 in 1963, and the proportion of credits with a maturity of over 15 years had risen to 78 per cent of the total. He stressed that the flow of public funds to less-developed countries was insufficient to meet their requirements and must be supplemented by private capital. He considered private investment to be more advantageous to the recipient countries as in addition to funds it brought with it know-how and personal contacts among technicians and entrepreneurs. New industries in the form of joint ventures between investors and recipient countries were particularly useful as they generally had assured markets, and helped to stimulate international trade. He also pointed out that in addition to the contributions of the donor countries the less-developed countries should mobilize their own resources and that efforts should be made in reaching common understanding about the necessary self-help requirements as contributions of the recipient countries. He supported the statements made by the representatives of the IBRD and the United States that GATT had an important rôle to play in trade-aid relationships and that a practical approach should be sought to implement it. GATT should act as trade expert and adviser to the lending agencies in whose activities it should participate. GATT could help the developing countries in the establishment or examination of development plans to ensure that trade aspects, both as regards the expansion of exports and the replacement of imports, be given the emphasis due to them.
16. The expert from the United Arab Republic expressed his appreciation of the broad support his proposal had received from the Group, especially as regards the need for more assistance to developing countries on appropriate terms, and the need for intensifying the co-operation between GATT and the lending agencies in the field of trade and aid relationships. He also expressed the hope that such co-operation would not be a delaying factor in the granting of aid.

17. The representative of the International Bank for Reconstruction and Development expressed his gratitude to the United Arab Republic for bringing up the subject and the way it was presented. The Bank would be very happy to widen the scope of its co-operation with GATT to include an agreement by which the problems brought up by the United Arab Republic could be discussed and trade considerations be taken into account. He agreed with the representative of the Federal Republic of Germany on the rôle of private investment; money available from government or multilateral sources was limited, private investment was not. Furthermore, it did not create balance-of-payments problems but brought with it management and a knowledge of markets.

18. The representative of the International Monetary Fund associated himself with the representative of the IBRD in welcoming the initiative and graciousness of the United Arab Republic. The co-operation between the IMF and GATT was of long standing and his organization expected it to continue and grow. If, as a result of the proposal, GATT advice on trade matters led to making development programmes more realistic, this would be a substantial contribution to the work of the International Monetary Fund.

19. The representative of the Organisation for Economic Co-operation and Development appreciated the constructive nature of the proposals. His organization had for a long time and increasingly benefited from its co-operation with the IBRD and the IMF and, more recently and he hoped also more increasingly in the future, with GATT.

20. The representative of the United Nations noted that his organization regularly collaborated with the GATT and other agencies in the field of aid and trade relationships, and expressed the readiness of the United Nations to continue close collaboration in the future.

21. A summary of the statement made by the Deputy Executive Secretary has been circulated separately as document COM.III/129.

22. Summing up the discussion the Chairman stated that the concern underlying the United Arab Republic's proposal was to give practical recognition to the link between trade and aid, and to discuss how it could be taken into account and how co-ordination between GATT and the other agencies could be achieved. The immediate aim was to render financial assistance more effective by ensuring that trade aspects play their proper rôle in decisions in the fields of planning and financing. As regards the central question of the rôle of GATT, no
suggestion had been made to convert GATT into a lending agency, while on the other hand it was fully recognized that GATT had a useful and essential rôle to play in the trade-aid field in bringing its expertise in the trade field to bear on aid programmes. He noted the positive reactions from the lending agencies and the numerous examples given to how they could make use of GATT's advice and participation in their activities. It was not the Group's immediate concern to provide a formal footing for the activities of GATT in the trade and aid field; the Committee on the Legal and Institutional Framework would, no doubt, wish to take the Group's report into account.