SECRETARIAT NOTE ON THE MEETING OF 7 DECEMBER 1966

1. The Group held its fourth meeting on 7 December 1966. The Chairman welcomed Turkey as a new member and this brought the membership of the Group to thirty-four contracting parties.

2. Ambassador Encinas del Pando, Chairman of the informal group of developing countries in GATT, recalled that it had been agreed at the third meeting of the Group on Expansion of Trade Among Developing Countries that, in addition to the suggestions relating to quantitative restrictions and other non-tariff barriers to trade, the informal group should also take up the other points mentioned in paragraph 10 of document COM.TD/D/5 and exchange views on the desirability of taking action along the lines suggested. Accordingly the informal group had held a preliminary discussion on those points, in particular points (f), (g), (i) and (j), relating to the use of external aid funds for payments for imports from developing countries, a loan fund to finance trade between developing countries, the effect of licensing arrangements between private firms on trade between developing countries and transport, communication and marketing difficulties hindering the expansion of trade among developing countries.

3. The informal group had considered that it would be useful (a) to obtain information on the work being done elsewhere before these points were examined in detail and (b) to consult with the developed countries and international institutions concerned and to find out their views as to the measures which could usefully be dealt with within the framework of the GATT. In this way account could be taken of the experiences of governments and institutions in post-war reconstruction, in the operation of the development assistance programmes, in the implementation of United Nations recommendations (for instance, UNCTAD Recommendation A.IV.1 and A.IV.4 and ECOSOC Resolution 1183(XLI)). Some members of the informal group had also felt that these questions could be referred by the Group to a group of experts nominated by governments of developed and developing countries and international organizations. It was for these reasons that the informal group had requested the convening of the present meeting.
4. In the course of the discussion representatives of certain developed countries recalled the arrangements which had been agreed upon by the Group, under which developing countries were requested to consult and discuss among themselves with a view to formulating concrete proposals. The short notice given for the present meeting had not permitted them to seek the necessary instructions on the various points raised. Certain aspects of the problem were currently under consideration in connexion with the UNCTAD meetings scheduled for the early part of 1967. For these reasons they found it difficult to participate in a discussion of the specific points or to support such proposals as to set up an expert group. They would be prepared, however, to express their views and to make comments on an informal and unofficial basis.

5. In discussing the possibility of providing increased financial assistance to developing countries without tying it to purchases in the aid-giving developed countries, representatives of some developed countries pointed out that their governments considered this to be desirable as a general proposition and were in fact lending support to it in practice. There were, however, circumstances in which the granting of "tied" aid might not only be necessary but also desirable. It must be borne in mind that the capacity of certain countries, especially those in balance-of-payments difficulties, in granting aid in totally convertible currencies was more limited than if a part of the funds were ear-marked for purchases in their own countries. To insist on aid being "untied" might indeed entail a reduction in the total aid that could be provided. In their view the practice of "tied" aid need not necessarily have the effect of limiting the expansion of trade between developing countries since the supply of capital goods and raw materials etc. from the aid-giving country would at any rate free a part of the foreign exchange sources of the borrowing country for payment for imports from other sources, including sources in developing countries.

6. Representatives of developing countries expressed the view that balance-of-payments difficulties as a limiting factor in the granting of untied aid by developed countries should not be overstressed; for even if a part of the funds arising from this aid were used by the recipient country for payment to other developing countries instead of to the country providing the aid, they would at any rate soon find their way back to the latter because the very large import needs of developing countries were for capital goods and raw materials which were produced predominantly in the developed countries. Moreover, it was not proposed that financial assistance as such should be "untied" but merely that the recipient countries should be allowed to use these funds also for imports from other developing countries. It seemed unlikely that such a step would have serious repercussions on the overall balance-of-payments position of the aid-giving countries. If, however, this were a matter of concern to the aid-giving countries, the GATT with its long experience in dealing with the trade aspects of balance-of-payments problems could examine ways of dealing with any problems which might possibly arise.
7. The representative of a developing country suggested that the developing countries be supplied with information on possibilities existing under present bilateral aid programmes for the use of assistance funds for imports from sources other than the aid-giving country. Similarly, developing countries should be informed of any trade opportunities which come to the notice of the secretariat in the context of its programme of development plan studies.

8. In discussing the proposal to set up a special fund to provide loans to finance trade between developing countries, representatives of developed countries pointed out that the question of financing trade expansion was the subject of studies currently being undertaken in preparation for the second session of the UNCTAD Committee on Invisibles and Financing related to Trade. If the Group should decide to deal with this question it would be advisable from the point of view of productivity and avoidance of duplication for it to be taken up at a later date. Representatives of developing countries recognized the desirability of avoiding unnecessary duplication of work. They felt however that it would be helpful to obtain at this stage the views of the developed countries on measures which could be eventually adopted to facilitate the financing of trade among developing countries. They were also aware that possibilities for action in this field were being discussed in other forums and that proposals were already on record. These questions were, however, intimately linked with the aim of GATT to assist economic development through trade expansion. It was hoped that the developed countries would not avoid discussing them in GATT.

9. On the question of setting up an expert group, members from developed countries considered that the need for such a group had not been established. Members from developing countries, noting that the Group was unable to take a decision at this stage, stated that they would revert to this proposal at a later meeting with a view to ensuring that the various questions before the Group would be dealt with speedily and efficaciously.

10. The observers from UNCTAD, the International Monetary Fund, the International Bank for Reconstruction and Development and the Food and Agriculture Organization were invited to address the meeting and to comment on the points of interest to them. The observer from the UNCTAD outlined the work being done in his institution with regard to the points under discussion. The untying of aid for imports from developing countries, which had been the subject of recommendations by various international bodies, would be touched upon in a secretariat report on aid and debt servicing being prepared for the Committee on Invisibles and would be examined in detail in another secretariat report on the untying of aid. The latter was expected to become available by the middle of 1967. The next meeting of the Committee on Invisibles would also have before it a report on payment arrangements among developing countries (TD/B/60) which inter alia dealt with the question of additional lines of credit from the IMF for the purposes of trade liberalization.
The UNCTAD Secretariat had also made arrangements for studying the particular problems of export credit in connexion with trade among developing countries. The UNCTAD observer drew attention to UNCTAD documents TD/B/68 and 85 which showed the links between external financial assistance and the solution of various problems encountered by developing countries in their efforts to expand their mutual trade.

11. The observer from the IMF described briefly the functioning of the Fund as relevant for the subjects under discussion, including the rules and procedures relating to the use of drawing rights and stand-by arrangements by members to meet balance-of-payments difficulties. He stressed that all funds made available by the Fund were totally untied and could be used for payments to any country. An example was given of the use which two Latin American countries had made of Fund arrangements to overcome bilateral payments difficulties which had been impeding their mutual trade.

12. The observer from the IBRD explained that all loans granted by the Bank were completely untied, development imports financed through IBRD loans being in fact subject to the requirement of international competitive bidding. He further informed the Group that the study on export credits, which had been entrusted by UNCTAD to the Bank, was being actively pursued and should be completed in the near future.

13. The observer from FAO referred to the work being done by his organization in the field of commodity projections and the financing of food aid.

14. As regards the effect on trade expansion among developing countries of licensing arrangements between firms in developing and developed countries, members of the Group expressed the view that possibilities for action in this field might be somewhat limited as such arrangements were normally worked out between private firms. They suggested that before the matter was discussed further it might be useful to ascertain whether any work on this problem had been undertaken by institutions dealing with patent rights and similar industrial property.

15. With regard to this question, as well as the subject of transport, communication and marketing difficulties affecting trade among developing countries, representatives of developed countries stated that, in view of their magnitude it would be useful if the problems suggested for examination were more precisely defined and if specific instances could be invoked. Such information, together with information on work in progress in other international organizations, would enable the Group to decide on the most appropriate procedures to be adopted for the systematic and efficient consideration of the various problems relevant to the work of the Group.
16. Representatives of developing countries agreed that the Group should approach the problems before it in a systematic and practical manner and so arrange its work as to complement rather than to duplicate efforts being undertaken elsewhere. They stressed that it was with these considerations in mind that they had requested fuller information both as regards work in progress elsewhere and in regard to the measures which the developed countries would envisage for dealing with the problems raised. They hoped, therefore, that at a future meeting developed countries would be in a position to indicate to the Group what measures they had in mind.

17. The Group considered that an integrated approach should be adopted in dealing with the problem and that the secretariat should prepare a document listing work relating to all aspects of the problem of expansion of trade among developing countries being undertaken in other international organizations including not only the UNCTAD but others such as IMF, IFRD, United Nations regional economic commissions and OECD. On the basis of such information and indications given by governments of the specific difficulties faced by them, the Group would, at a later meeting, decide on the contribution it can make to the solution of the problems, taking account of all relevant factors.