Committee III - Expansion of Trade

DRAFT SPECIAL REPORT OF COMMITTEE III TO THE CONTRACTING PARTIES

1. At the twelfth session of the CONTRACTING PARTIES which was attended by Ministers, the existing state and prospects for international trade were reviewed and note was taken of the failure of the export trade of less-developed countries to expand at a rate commensurate with their growing import needs. The CONTRACTING PARTIES, therefore, set up a Panel of Experts to examine current trends in international trade, and following the discussion of the report of this Panel of Experts ("Trends in International Trade") at the thirteenth session, the CONTRACTING PARTIES established Committee III under the following terms of reference:

"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 less-developed countries to the development and diversification of their economies".

This Committee first met in March 1959 and has held a number of subsequent meetings. Reports of these meetings have been submitted to the CONTRACTING PARTIES as documents COM.III/1, L/1063, L/1321, L/1435, L/1510 and L/1557.

2. The Committee in preparing this special report lists below its principal findings and goes on to set forth recommendations which it places before contracting parties for urgent consideration. A fuller account of the basic considerations which guided the Committee in its work and its findings with relation to some thirty products of actual or potential export interest to less-developed countries are contained in the Annex to this report. Also, included in the Annex are the findings of the Committee with respect to the examination of the trade-and-payments aspects of the Third Five-Year Plan of India.

3. The seriousness of the problems facing less-developed countries has been made clear in other organizations as well as in GATT. Substantial efforts are being made in these other bodies to develop aid programmes.

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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 make the less-developed countries less dependent on external aid, strengthen their economies and accelerate their development, but will also reinforce the prosperity of their trading partners as well.

4. The Committee, in its Second Report to the CONTRACTING PARTIES in October 1959, 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".

This recommendation of the Committee was unanimously adopted by the CONTRACTING PARTIES at their fifteenth session in November 1959 and has since been reiterated by the Committee in subsequent meetings.

5. It is the view of the Committee that, despite the fact that the continuing and urgent need for the removal and the reduction of obstacles to the increase of export earnings and to the economic development of less-developed countries has been constantly brought to the notice of the CONTRACTING PARTIES, in comparison to the magnitude of the problem, insufficient progress has been made. The Committee feels that more positive action by governments is required.

6. The main findings of the Committee were as follows:

(1) **Quantitative import restrictions**

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 products as vegetable oils, coffee, raw cotton, tobacco, tropical timber, jute, cotton and coir manufactures, and sewing machines were often adversely affected by quantitative import restrictions which were sometimes applied in a discriminatory manner. 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 these materials had
continued to be subject to restrictions. The Committee noted with some concern that certain industrialized countries had liberalized trade on an area basis, while maintaining restrictions against other areas in which most of the less-developed countries are located. The maintenance of such restrictions by industrialized countries was a serious threat to the balanced 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 contributing to strains on the capacity of these markets to absorb imports. Moreover, many of these restrictive measures, particularly discriminatory restrictions, were in clear contradiction with obligations of the importing countries under the General Agreement; a conscientious application of the General Agreement by all contracting parties would in itself go a long way towards removing many of the barriers at present still confronting exports from less-developed countries.

(ii) Tariffs

High tariffs and tariffs which differentiated disproportionately in favour of imports of raw materials, as compared to duties for processed goods, were also identified as constituting serious barriers to exports from less-developed countries, particularly with respect to vegetable seeds and oils, coffee, tea, cocoa products, manufactures of jute, of cotton and of coir, sports goods, aluminium, ferro-alloys and copper rollings, leather products, and certain other manufactured consumer goods. It was found that a reduction of these barriers would be of considerable assistance to less-developed countries. In addition, it was found that tariff preferences may cause significant diversions of trade, for example, certain tariff preferences on coffee, cocoa, and tropical timber.

(iii) Revenue duties and internal fiscal charges

High revenue duties and high fiscal charges were also emphasized as being major barriers to such important traditional exports from less-developed countries as coffee, tea, cocoa, and tobacco, 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 European countries. It was also emphasized that a reduction of these barriers would be of considerable assistance to less-developed countries in increasing export earnings from these commodities and would contribute to an improvement in their terms of trade.

(iv) State monopolies

The Committee also found that the activities of restrictive State monopolies, whether in countries with centrally planned or market economies had an adverse effect on imports from less-developed countries of items like coffee, cocoa, tea and tobacco, particularly where retail prices fixed for these products were very high in relation to import costs. It was found that decisions by these monopolies to import larger amounts of these products and to provide liberal access to imports from less-developed countries, combined with significant reductions in internal prices, could make a contribution to an expansion of export earning capacities of less-developed countries.

(v) Other barriers

The above list of the principal obstacles to the expansion of trade of less-developed countries is by no means exhaustive. For example, a possible loss of trade opportunities for less-developed countries arises from the operation of price-support schemes, surplus disposal operations, and mixing regulations in some countries.

The Committee has requested the secretariat to bring up to date its paper COM.III/W.14 which illustrates the findings of the Committee with respect to the various types of barriers referred to above.
Recommendations of the Committee

7. In the light of the findings outlined above the Committee wishes to place before the CONTRACTING PARTIES the following specific recommendations:

(i) contracting parties should give immediate and special attention to the speedy removal of those remaining import restrictions which affect the export trade of less-developed countries;

(ii) contracting parties should consider the immediate removal of any element of discrimination in the application of their import restrictions which affect the export trade of less-developed countries;

(iii) contracting parties, especially industrialized countries, should examine their tariffs with a view to an early expansion of the export earnings of less-developed countries;

(iv) contracting parties should during tariff negotiations keep in mind the needs of less-developed countries, as stipulated in Article XXVIII bis:3(b) of the General Agreement, for a more flexible use of tariff protection, particularly to assist their economic development;

(v) contracting parties should adopt a sympathetic attitude on the question of reciprocity of tariff concessions to meet the special needs of less-developed countries;

(vi) contracting parties, especially those industrialized countries with favourable financial and economic situations, should re-examine the possibility of reducing substantially their internal revenue and fiscal charges on the products of interest to less-developed countries;

(vii) contracting parties, especially industrialized countries, should orientate their commercial and economic policies so as to enable less-developed countries to enjoy a progressively increasing rate of growth;

(viii) contracting parties, especially countries industrially advanced, should consider whether in the light of the increasing concentration of production in capital intensive industries and, in some countries, a shortage of manpower in relation to demand for investment, their industries can attain higher levels of competitiveness and production efficiency if their requirements of semi-finished and finished components and of the simpler industrial products are met by exports from less-developed countries instead of being manufactured at home;
(ix) Contracting parties should take account of the long-term plans of the under-developed countries (such as that of India, which is discussed in the Annex to this report) and recognize the importance of financial assistance to less-developed countries being supplemented by facilities for expansion of their exports, both of manufactured goods and raw materials.
I. BASIC CONSIDERATIONS

1. The Committee had in mind the effect on economic development of such trade liberalization and tariff reductions as have already been effected in accordance with the General Agreement, of facilities under the General Agreement, and other ways of using foreign exchange resources to maximise economic development, and the part to be played by economic and technical assistance and by international commodity arrangements. The Committee was aware that, important as such measures as international financial assistance were for the development of many less-developed countries, they could not be substitutes 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 a rapid increase in the export earnings 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 a pattern for sound economic development.

2. The Committee considered that the development of the economies of the less-developed countries in economically sound directions was of utmost importance to an expansion of international trade in general. However, the success or failure of the efforts of these countries in this direction depended to a large extent on their being able to rely upon liberal access to world markets and above all to the markets of industrialized 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 economise on foreign exchange. 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.
3. 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 that, in addition to supplying domestic markets, which in some cases were very limited, they had access to export markets.

II. FINDINGS OF THE COMMITTEE

A. 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) foodstuffs and tropical agricultural products
   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-manganese; bauxite; alumina and aluminium; timber; phosphates; and cement;

(3) manufactured 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 products 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) Foodstuffs and tropical agricultural products

(a) Cocoa, coffee and tea

3. The expansion of exports of cocoa, coffee and tea was found to be affected by high revenue duties and internal fiscal charges. For instance in a few major Western European countries taxes on coffee, together with the tariff rates imposed, resulted in an overall level of taxation of imports of coffee into those 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 those countries was even higher. Duty rates on cocoa, in those 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 those 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 those 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 those 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
loss-developed countries. Tea, which was an important export commodity for many loss-developed countries, was the most important source of export earnings for one of the loss-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 those 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 these 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 loss-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. The Committee recognized 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 judgment. Nevertheless, the Committee felt that these tax measures should in no case afford undue protection to uneconomic producers and should be operated so as not to favour particular sources of supply, but to give foreign producers reasonable access to markets. The Committee also noted that in some cases the activities of State monopolies resulted in undue protection to domestic producers and in severe quantitative restrictions on imports of tobacco. Some members of the Committee pointed out that 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. The Committee found that high tariffs prevailed in a number of countries on shrimps and other fish products.

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 an 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 than 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 economies 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 these 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, might have an adverse effect on the expansion of exports processed from such industrial raw materials such as iron ores, copper and bauxite, most members of the Committee considered that commercial policy measures were not unduly hampering trade in these 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 certain West 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, coir 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 reasons 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. Coir manufactures were in general subject to the same barriers. The expansion of exports of these 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 these 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 these commodities.

18. With respect to sports goods, the Committee found that although there appeared to be a rising trend in demand for these 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 important exports for one or two of the less-developed countries and played an important role in employment in certain areas of these 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 those items was unfavourably affected, however, by the practice noted above with respect to other products of granting relatively less liberal tariff treatment to semi-manufactures and to the finished product than to unprocessed materials. 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, steel furniture, 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 sewing 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 towards making the economy self-sustaining. The Committee noted that for achieving these 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 techniques 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 there were possibilities for significantly and rapidly increasing production of tea by means such as 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 could hardly be undertaken, desirable as this might be for increasing productivity, 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 these as well as other commodities of export interest to less-developed countries such as India.