INTRODUCTION

1. The Preparatory Committee at its Third Executive Session decided to include in its revised Agenda the item "International Agreement relating to Industrial Development." At early executive sessions various delegates suggested that the question of industrial development, though intimately related to the work of Committees I and II, was of sufficient importance to merit separate consideration. By common agreement Committees I and II met in joint session on 18 October and established a Joint Committee on Industrial Development, consisting of delegates from the eighteen countries represented on the Preparatory Committee. Mr. MALIK (India) was elected Chairman, and it was agreed that Dr. H.C. COOMBS (Australia), Chairman of Committee II, and Mr. WANG KI\NG (China), Chairman of Committee I, should act as Vice-Chairmen. The Joint Committee met four times, finishing its work on 18 November.

2. At its third meeting the Joint Committee appointed a Drafting Sub-Committee consisting of Delegates from Australia, Brazil, China, France, India, United Kingdom and the United States. The Sub-Committee, during the course of its seven meetings, followed an Agenda based on the following main points:

   (a) General principles and objects of industrial and economic development.
(b) Ways and means for achieving industrial development, including determination of criteria for industries deserving protection.

(i) Capital and investments.

(ii) Technology and related matters.

(iii) Materials, manufactured goods and equipment.

(iv) Commercial policies.

(c) Allocation of functions.

In addition to statements made by delegates at Joint Committee meetings, particularly the Australian, Indian and United Kingdom Delegates, the Sub-Committee had the benefit of papers presented by Australia, Brazil, Chile, China, India, Lebanon, United States, the Colombian Observer and the Secretariat.

3. The Sub-Committee's Report was considered and adopted as amended by the Joint Committee at its fourth and final meeting on 18 November. The Joint Committee's final Report, to which is appended a draft Chapter on Economic Development, a draft Resolution to the Economic and Social Council and a Message to Committee II, is now presented for consideration by the Preparatory Committee.

Recommendations

4. The Joint Committee recommends to the Preparatory Committee as follows:

(a) that to provide for the International Agreement on Industrial Development in the Agenda of the International Conference on Trade and Employment, a chapter should be inserted in the Charter for an International Trade Organization providing for an undertaking by all Members to promote industrial and general economic
development and providing for agreed action which may be necessary by Members in order to promote such development;

(b) that in view of the plans being made by the Economic and Social Council to promote economic development and the interests of other specialized international agencies in the subject, a communication should be sent immediately from this session of the Preparatory Committee to the Economic and Social Council inviting the Council, in its consideration of how the responsibility for the promotion of industrial development should be shared between the various international bodies including the International Trade Organization, to take into account the views of the Joint Committee, and to state whether Article B (3), included provisionally in the Draft Chapter on Economic Development, is in accordance with the Council's views on the appropriate allocation of functions relating to economic development.
PART II

A. Development of Economic Resources

1. The Joint Committee feels that there should be a clear recognition in the Charter of the International Trade Organization that the progressive development of economic resources in all parts of the world is not only desirable in itself as a means of raising living standards in particular countries, but is also desirable as a means of expanding the volume of world trade, thus benefitting all countries interested in international commerce. Improvements in standards of production and real income in a country contribute to the achievement and maintenance by that country of high and rising levels of effective demand for goods and services in general thus enhancing the capacity of that country to participate in world trade. The development of economic resources will also have desirable social consequences by expanding the range of useful employment opportunities. It is therefore desirable that there should be progressive development especially in those countries whose industries at present are inadequately developed relative to their potential.

2. In the view of the Joint Committee one of the chief gains from development is found in the resulting greater diversification within and between primary, manufacturing and service industries. Such diversification can contribute to increased stability in the economy of a country and confer upon it great social and cultural benefits. The development of manufacturing industries will be of particular importance as it is through such development that the greatest measure of diversification of production and employment opportunities can be achieved.

3. The Joint Committee wishes also to draw attention to a matter of interest to all countries, namely, the early economic re-establishment and industrial restoration of those countries whose economies have
suffered from the direct impact of war. These countries have resources so real and important to the rest of the world that their temporary disappearance or decline has been followed by difficulties in parts of the world far removed from the theatres of war. Their economies are in many cases those of already well developed countries and are ready for relatively rapid re-establishment which will put them in a position to make available to other countries materials, equipment and other manufactured products which will be needed for economic development. In these countries there are qualified technicians and experienced artisans already accustomed to modern industrial technology and ready to undertake the great diversity of occupations involved. Once restored, these war devastated countries will be in a position to contribute to technical progress and to the raising of productivity and living standards. The Joint Committee believes therefore that measures should be taken to facilitate a rapid return in the devastated countries to the development interrupted by the war and that this will be helpful to the rapid and sound development of other countries.

B. Adaptation of Economies

1. As the less developed countries progressively undertake the production of a wider range of commodities for their domestic markets, it is likely that the more highly developed economies, which formerly supplies the markets of the less developed countries, will be faced with problems of adapting their economies to the changed circumstances. These problems will be minimised both in degree and duration if countries are careful to ensure that their development programmes are soundly based and carried out. The Joint Committee suggests that only in this way will the developing country make its most effective contribution to its own economic welfare and to international trade, and only thus will the more highly developed countries be able to adapt their economies with reasonable prospect of success.
2. On the other hand there will also be problems of adjustment facing the developing countries. These problems will be mainly associated with the transfer of workers from agriculture and other primary industries, as the productivity of labour in such industries increases, to manufacturing and other branches of expanding economic activity. This transfer may involve a geographical re-distribution of population with all its attendant problems, as well as problems of occupational training and re-training.

C. Conditions of Industrial Development

In any country the conditions of the industrial development of economic resources include capital, capital goods and materials, markets, and adequate technology, managerial skill, and technicians and trained artisans in sufficient numbers. When any of these conditions are unsuitable, international and domestic action may be taken to modify the situation. Thus international action taken may be such as to facilitate the supply of capital, capital goods and materials, to provide skilled management, trained technicians and artisans and to improve technology. Individual countries may take action to plan and carry out development projects, to raise standards of industrial management, and to provide for the training of their own nationals as technicians and artisans, and subject to international obligations, they may aim by the use of protective measures at providing a reasonable share of the home markets to the commodities being produced in their own territories.

D. Provision of Capital

Capital may be needed by a country to modernize and improve the technology of existing industries, to expand existing industries or to establish new ones. It may also be needed to improve or increase the supply of public utilities such as transport and communication services, water and power supplies. While projects
of the latter character are essential to progressive development, they may not be immediately or directly remunerative, and international action may be all the more necessary, if the supply of capital is to be adequate.

2. The Joint Committee feels that the international supply of capital will be particularly necessary to the less developed countries and to the countries which have suffered from war. The channel for this supply may be through private investors, through government agencies, or through the International Bank for Reconstruction and Development. In view of the importance of industrial development to expansion of world trade it is felt that all members of the International Trade Organization should recognize that they have a responsibility to co-operate within the limits of their power to do so with appropriate international agencies in ensuring that there is a regular flow of capital to those countries in particular which have limited capital resources. The International Trade Organization might well participate in discussions with its own members and with other International bodies regarding proposals to this end. In addition, the Joint Committee feels that members should undertake not to place any unreasonable impediments in the way of other members having access to capital.

3. A country embarking on a programme of development involving substantial imports of capital goods, may be faced with the possibility of balance of payments difficulties. The Joint Committee is of the opinion that, if at any time a country anticipates that such difficulties are imminent, it should be permitted to impose qualitative regulation of its imports so that the appropriate balance may be kept between its imports of capital and consumer goods. Naturally, such a regulation of imports will only remain necessary while the prospect of balance of payments difficulties remains. A message has been sent to Committee II about this matter.
E. Supplies

In all countries there will be a demand for capital equipment and materials of all kinds arising from programmes of production and development. For most countries, including those which are actively promoting their industrial and general economic development, this demand can only be satisfied by obtaining supplies of one kind or another from other countries. The Joint Committee is therefore of opinion that Members of the Organization should recognize that they have an obligation to other Members to refrain from placing unreasonable obstacles in the way of supply of capital goods and materials of all kinds needed by other Members. This obligation of course would be undertaken subject to the other provisions of the Charter. For example, where special shortages occur in the supplying country, particularly in the early post-war transitional period, such countries would be free to apply restrictions in the manner provided for in Article 19 of the United States Draft Charter. In such circumstances, however, it is hoped that they would take into account the needs of other countries, and hold such restrictions to a minimum.

F. Technology and Training

One of the most important ways in which industrial development can be promoted throughout the world is through the dissemination of knowledge concerning techniques of production, particularly in countries at present inadequately developed relative to their potential. This can be achieved in part by national and international action to make available as widely as possible (subject to considerations of national security) knowledge of new developments in all countries resulting from changing technology and scientific research, and in part by individual action by business entities in the less industrialized countries gaining access to
patents, specifications and technological developments. This may be accomplished, for example, by such business entities becoming associated with more experienced ones in the more highly industrialized countries. Technology can be improved also if technicians and skilled artisans in the more developed countries are encouraged to go, permanently or temporarily, to the less developed countries. On the other hand the less developed countries should provide for raising the standard of technical and technological training of their own nationals and should have opportunities of sending their own nationals to the more developed countries for instruction and training.

G. Mutual Responsibilities

In the carrying out of programmes of industrial and general economic development, therefore, there will be an interdependence between the less developed and the more highly developed countries. In relation to the international supply of facilities for economic development including capital funds, capital goods and materials, equipment, advanced technology and trained personnel, the Joint Committee is of the opinion that all countries should recognize that they have mutual responsibilities. It has already been noted that countries in a position to supply these facilities should impose no unreasonable impediments that would prevent other countries from obtaining access to such facilities. It is equally important, however, that countries receiving such facilities should treat the supplying countries, including their business firms and citizens, in conformity with the provisions of any of their relevant international obligations and in general that they should take no unreasonable action injurious to the interests of the supplying country.
H. Markets and Protection

1. As a general rule newly established industries depend, initially at least, upon domestic markets for the sale of their products. The Joint Committee is of the opinion, therefore, that where necessary Member countries desiring to promote industrial development should have or should be afforded reasonable freedom to employ protective measures so that an adequate portion of their local markets may be assured to the commodities concerned. However, since an unwise use of protective measures by any country for the purpose of promoting industrial development places an undue burden on the economy of that country and imposes unwarranted restrictions on international trade, it is desirable that countries promoting development should not make immoderate use of such protective measures.

2. The use of dumping policies by other countries might be particularly harmful to countries wishing to carry out a programme of development or reconstruction. The Joint Committee, however, has not recommended any special action to provide against this contingency as it is understood that appropriate provision is being made by Committee II.

3. Since the comparative development of Member countries is uneven, and since the levels of existing tariffs are unequal, the Joint Committee is of the opinion that account should be taken of these factors by Members generally in any tariff negotiations and by the Organization should it be called upon to determine whether a country has fulfilled its obligations with respect to such negotiations. A message has been forwarded to Committee II about this matter.

I. Nature of Protection

1. The Joint Committee has devoted considerable attention to the question of the kind of protective measures which might be used for promoting development. It was generally recognized that the Draft Charter already provides a substantial
measure of freedom to use subsidies and that it also permits the use of tariffs in those cases where tariff rates are not bound against increase as a result of agreements voluntarily negotiated by prospective Members as contemplated in connection with the Charter. The Joint Committee's discussion of this problem, therefore, related principally to the means whereby a Member might obtain a limited release from obligations assumed in the course of such negotiations with other Members and from regulations contained in the Charter governing the use of forms of protection other than subsidies and unbound tariffs.

2. The Joint Committee came to the conclusion that such releases should be granted in appropriate circumstances and arrived at agreement on the procedure which is described in Article D (3) of the appended draft chapter. Sub-paragraph (b) of that paragraph covers a situation in which permission is sought to raise a tariff that had been bound as a result of negotiations with other Members, or in which it is desired to impose some other form of protection that is otherwise not permitted by the Charter and that would impair the value to other Members of an agreement negotiated with respect to tariff. The somewhat simpler procedure indicated under sub-paragraph (c) provides for cases in which release is sought from obligations assumed by ratification of the Charter and such release would not impair the result of prior tariff negotiations. The Joint Committee gave particular attention to the possible use of quantitative regulation of imports as a means of protection. It is of the opinion that, subject to the suggested procedure, this means should be employed only where it would place a lighter burden on the country giving the protection and where it would be less restrictive of international trade than would be the case with other forms of protection.

(One Delegate felt that quantitative restrictions should be recognized as a means of giving protection which could be used at any time in the early stage of industrial development by a Member deeming it absolutely necessary, subject
only to the right of any other Member to complain to the Organization if such Member felt that in any instance quantitative restrictions were being used unjustifiably. This Delegate specifically reserved his position with regard to article D (3) of the draft chapter.)

(A second Delegate expressed concern at what he considered to be the complicated and lengthy character of the procedure for obtaining release provided in article D (3) of the draft chapter. He felt the suggested procedure might make it difficult for under-developed countries to obtain a release, particularly to use quantitative restrictions. In those cases in which quantitative restrictions are no more restrictive than alternative forms of protection, he would urge that the procedure adopted by the Organization should be less cumbersome, providing for release on the basis of criteria established by the Organization, without requiring prior consultation with other Members. Although realizing the evils of quantitative restrictions, he believed their use for protection should be provided specifically in the Charter. However, he did appreciate the compromise this Committee had been able to reach in this matter and would propose no amendments at this stage, but made the above reservation.)

3. The Joint Committee also heard the views of a Delegate concerning the use of regional preferential arrangements, but as it was understood that detailed consideration of such arrangements was being given by Committee II, it was decided that no further action need be taken by this Committee.

(Despite the Joint Committee's proposal, as set out in article D (3), that the Organization should be empowered to give a release in appropriate circumstances to a Member in respect of any obligation under the Charter, one Delegate felt that there should be more specific provision for the use of regional preferential arrangements as a means of giving protection. This Delegate therefore reserved his position on this point.)
J. Allocation of Functions

1. The Joint Committee has given careful consideration to the question of how the international functions relating to industrial development can best be carried out and to the part which the International Trade Organization should play in their performance. It is clear that the International Trade Organization must exercise functions relating to industrial development at least insofar as measures of commercial policy are employed to foster such development. From the point of view of the purposes of the Charter and the effective working of the International Trade Organization, there are strong arguments for empowering the Organization to perform certain positive functions in relation to industrial development, particularly in the provision of technical aid to members in the formulation and execution of plans for development. Accordingly the Joint Committee has included in the draft chapter appended to this report a tentative provision which if adopted would enable the International Trade Organization within its competence and resources to provide such aid.

2. This task, because of its essentially administrative character, would be appropriate to a specialized agency, and its performance by the International Trade Organization might provide a useful means of positive co-operation with others. Furthermore, it would provide the personnel of the Organization with continuous experience of the positive as well as the protective aspects of national development policies and so assist them in maintaining the balanced point of view which will be essential to the wise exercise of the discretions which the Charter entrusts to the Organization.

3. The Joint Committee is aware, however, that this problem cannot be looked at solely from the point of view of the purposes of the Charter. There are a number of inter-governmental organizations concerned with various aspects of industrial development. These include the
Sub-Commission on Economic Development of the Economic and Social Council, the International Bank for Reconstruction and Development, the International Labour Organization, the Food and Agricultural Organization and the United Nations Educational, Scientific and Cultural Organization. The Joint Committee assumes also that the Economic and Social Council will shortly be giving consideration to the question of the appropriate division among various agencies of responsibilities not yet allocated in the field of economic development and to the means whereby their activities can be adequately co-ordinated, and that the decisions of the Council on these questions must be based on other and possibly wider considerations in addition to those which fall within the competence of this Committee. Accordingly, paragraph 3 of Article B in which the Organization is empowered to provide technical aid to Members has been placed in square brackets as an indication that its inclusion should be regarded as provisional until the views of the Economic and Social Council on this question have been formulated.

4. It is suggested, therefore, that the Economic and Social Council should be invited, when examining the allocation of functions in relation to industrial development, to give due weight to the considerations set forth above, and, in particular, to advise whether the inclusion of paragraph 3 of Article B is consistent with the Council's views. A draft resolution to this effect is submitted for the consideration of the Preparatory Committee.

5. In view of the fact that there are many factors, other than those directly relating to the International Trade Organization, which require to be taken into consideration in this matter, the Joint Committee expresses the hope that the Governments represented on the Preparatory Committee who are not also Members of the Economic and Social Council may be invited to submit their views at the time the Council is considering these matters.
Importance of Economic Development

Members recognize that the industrial and general economic development of all countries and in particular of those countries whose resources are as yet relatively undeveloped will improve opportunities for employment, enhance the productivity of labour, increase the demand for goods and services, contribute to economic stability, expand international trade, and raise levels of real income, thus strengthening the ties of international understanding and accord.

Plans for Economic Development

1. Members undertake to promote the continuing industrial and general economic development of their respective countries and territories in order to assist in realizing the purposes of the Organization.

2. Members agree that they will co-operate through the Economic and Social Council of the United Nations and the appropriate intergovernmental Organizations in promoting industrial and general economic development.

3. The Organization, at the request of any Member, shall advise such Member concerning its plans for economic development and, within its competence and resources, shall provide such Member with technical assistance in completing its plans and carrying out its programmes.

The Means of Economic Development

1. Members recognize that progressive economic development is dependent upon the availability of adequate supplies of:

   (a) capital funds; and
(b) materials, equipment, advanced technology, trained
workers and managerial skill.

2. Members agree to impose no unreasonable impediments that would
prevent other Members from obtaining access to facilities required for
their economic development.

3. Members agree to co-operate within the limits of their power to
do so, with the appropriate inter-governmental Organizations of which
they are Members in the provision of such facilities.

4. Members agree that, in their treatment of other Members, business
entities or persons supplying them with facilities for their industrial
and general economic development, not only will they conform to the
provisions of their relevant international obligations, now in effect,
or which they may undertake pursuant to Article 5C (5) of the United
States Draft Charter or otherwise, but also that in general they will
take no unreasonable action injurious to the interests of such other
Members, business entities or persons.

5. The Organization shall receive from any affected Member, or with
the permission of that Member from business entities or persons within
its jurisdiction, complaints that action by another Member is inconsistent
with its obligations under paragraphs 2, 3 or 4 of this Article. In the
event of such complaint, the Organization may, at its discretion, request
the Members concerned to enter into consultation with a view to reaching
a mutually satisfactory settlement and lend its good offices to this end.

Article D

Governmental Assistance to Economic Development

1. Members recognize that special governmental assistance may be
required in order to promote the establishment or reconstruction of
particular industries, and that such assistance may take the form of
protective measures.

2. Members recognize that an unwise use of such protection would impose
undue burdens on their own economies and unwarranted restrictions
on international trade, and might increase unnecessarily the
difficulties of adjustment for the economies of other countries.

3. (a) If a Member, in the interest of its programme of
development, proposes to employ any protective measures which
would conflict with any of its obligations under or pursuant
to the Charter, it shall inform the Organization and shall
transmit to the Organization any finding in support of this
proposal. The Organization shall promptly inform those
Members whose trade would be substantially affected by the
proposal and afford them an opportunity to present their
views. The Organization shall then promptly examine the
proposal in the light of the provisions of this Chapter, the
findings presented by the applicant Member, the views presented
by Members substantially affected, and such criteria as to
productivity and other factors as it may establish, taking
into account the stage of economic development or reconstruction
of the Member.

(b) If, as a result of its investigations pursuant to
sub-paragraph (a), the Organization concurs in any measure
which would be inconsistent with any obligation that the
applicant Member has assumed through negotiation with other
Members pursuant to Chapter IV of the United States Draft
Charter or would reduce the benefit to such other Members of
any such obligation, the Organization shall sponsor and
assist in negotiations between the applicant Member and other
Members substantially affected, with a view to obtaining
substantial agreement, whereupon the Organization may release
the applicant Member from the obligation in question or from
any other relevant obligation under the Charter, subject to
such limitations as the Organization may impose.
(c) If, as a result of its investigations pursuant to sub-paragraph (a), the Organization concurs in any measure other than those covered in sub-paragraph (b), which would be inconsistent with any obligation assumed under this Charter the Organization may, in its discretion, release the applicant Member from the obligation in question subject to such limitations as the Organization may impose.
APPENDIX II

RESOLUTION REGARDING INDUSTRIAL DEVELOPMENT

(To be Conveyed to the Economic and Social Council)

WHEREAS it is anticipated that the Economic and Social Council will shortly consider the questions of dividing responsibilities not yet allocated in the field of economic development among the various agencies concerned and of co-ordinating these activities;

AND WHEREAS the Preparatory Committee at its First Session has discussed the positive functions in relation to industrial development which might be exercised by the International Trade Organization, particularly the furnishing of advice to Members concerning their plans and, within its competence and resources, the provision of technical aid in the formulation and execution of such plans;

AND WHEREAS so that the Preparatory Committee may further carry out its terms of reference as regards industrial development, it is desirable for it to have the guidance of the Economic and Social Council upon the views which were exchanged at the First Session;

THE PREPARATORY COMMITTEE OF THE INTERNATIONAL CONFERENCE ON TRADE AND EMPLOYMENT

HEREBY REQUESTS the Executive Secretary to draw the attention of the Economic and Social Council to those portions of the Report of the Preparatory Committee which are concerned with the possible performance by the International Trade Organization of functions in relation to industrial development and to ask the Economic and Social Council to state, before the commencement of the Second Session of the Committee, whether Article B (3) included provisionally in the draft Chapter on Economic Development, is in accordance with the Council's views on the appropriate allocation of functions relating to economic development.
APPENDIX III
MESSAGE TO COMMITTEE II

In the light of recommendations regarding industrial and general economic development which the Joint Committee is making to the Preparatory Committee, the Joint Committee requests Committee II to make a provision in Article 18 of the chapter dealing with Commercial Policy, so that the Organization and other Members should, when considering the contribution which a Member can make to a reduction in tariffs, take into account the height of the tariff of that Member, and the need, if any, of that Member to use protective measures in order to promote industrial and general economic development.

The Joint Committee also requests that in Article 20 provision should be made to cover the position of a Member who, as a result of its plans for industrial development or reconstruction, anticipates that its accruing international monetary resources will be inadequate to finance the needed imports of goods, for example, capital goods, for the carrying out of such plans unless it imposes regulations restricting the import of certain classes of goods, for example, consumer goods.