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U.N. CONFERENCE ON TRADE AND DEVELOPMENT PART 3

THE TRUTHS UNCTAD WILL NOT FACE

INTRODUCTION

The United Nations Conference on Trade and Development (UNCTAD)* is a Geneva-based agency of the General Assembly of the United Nations. Founded in 1964 to consider the relationship between international trade policies and economic development in the Third World, UNCTAD quickly fell under the control of a radical Third World majority and a coterie of international bureaucrats, who have been seeking to create a collectivist international economic order. With a staff of 448 and a two-year budget of $56.5 million, of which $14.1 million is supplied by the United States, UNCTAD is today both brain trust and advocate for the Third World majority that increasingly controls the family of United Nations institutions.

The tragic irony, however, is that what UNCTAD advocates will actually make it more difficult for Third World nations to grow and develop. If the UNCTAD majority and its secretariat have their way, the approaches that have fostered development will be hindered, while those that have hindered development will be fostered. Even more ironic is the fact that a number of UNCTAD's own studies controvert some of the organization's major proposals and ideological stances.

The reason for this gap between what works when it comes to development and what UNCTAD proposes lies in the organization's ideology and politics. On the one hand, UNCTAD's ideology requires conformity to a "party line" whereby free trade is viewed as

* This paper is the third in a series on UNCTAD. It was preceded by Heritage Foundation Backgrounder No. 348, "Cheating the Poor," April 30, 1984, and Backgrounder No. 374, "Blocking Economic Growth," August 20, 1984.

"robbery," prices set by market forces are considered unfair, and multinational corporations are seen as economic vampires. On the other hand, the politics of UNCTAD forbids any consideration of two subjects: (1) the impact of the Organization of Petroleum Exporting Countries (OPEC) on the international economic problems of the 1980s; or (2) what development strategies have and have not worked in the developing world.

This combination of ideology and politics forces UNCTAD to ignore or to deny three great truths that must be faced if economic development is to accelerate in the Third World:

1) OPEC oil prices have had a major impact in ending "the golden age of development" that the developing countries experienced from 1945 to 1980.

2) Multinational Corporations (MNCs) have made great contributions to the development of Third World nations.

3) The success or failure of many Third World countries to grow and develop can be explained largely by the domestic policies pursued by those countries.

OPEC OIL PRICE INCREASES: A DISASTER FOR THE DEVELOPING COUNTRIES

Between 1950 and 1980, Third World nations enjoyed an enormous amount of growth and development. Gross domestic product rose by nearly 500 percent through an annual growth rate of 5.4 percent, and the growth rate increased each decade--from 4.5 percent in the 1950s, to 5.3 percent in the 1960s, to almost 6 percent in the 1970s. Industrial growth moved ahead at the even higher rate of 7.3 percent, while the Third World's share in the production of heavy industry increased from near zero in 1950 to 9 percent in 1981. Finally, gross domestic capital formation, an indicator of decreasing dependence on external resources for internal investment, rose from 10 to 12 percent in the 1950s, to 17.8 percent in the 1960s, to nearly 27 percent by the end of the 1970s.

What these statistics demonstrate is that the developing countries have grown much more quickly than today's developed countries did when the latter were at similar stages of underdevelopment. Despite the usual pictures of gloom and doom presented by UNCTAD officials, one UNCTAD document, which reviewed the post-1945 record of the developing countries, referred to this period as "a golden age of economic growth."[1]

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1 Report by the UNCTAD secretariat, A Strategy for the Technological Transformation of the Developing Countries, TD/B/C.6/90, September 23, 1982. All of the figures presented above are taken from this document.

Why Third World Development Faded

In the early 1980s, however, this "golden age" faded. It did so, according to the standard line of UNCTAD officials, because the "external environment" turned "decisively hostile" to development. The factors that UNCTAD officials cite as responsible for this "decisively hostile" environment stemmed from domestic policies of the developed countries in the north--high inflation rates, economic recession, high interest rates, reductions in foreign aid, increasing protectionism, declining imports from developing countries, and the increasing burden of debt servicing in Third World countries.

Nowhere do UNCTAD documents or studies mention one of the major causes of this stagnation--the shattering impact worldwide that the OPEC oil cartel and its price rises have had on rich and poor economies alike. While OPEC obviously is not the sole cause of the economic maladies of the 1980s, the steep oil price increases in 1973-1974 and 1979 were major contributing factors to the two recessions in the past decade, the consequent inflation that spiraled throughout the world economy, the declining demand for developing country products, the unemployment in the developed countries, the consequent demands for protectionism, and the massive indebtedness of the developing countries--an indebtedness now reaching $800 billion.

When OPEC increased the price of oil by 400 percent in 1974, the oil exporting nations increased their revenues from $14.5 billion in 1972 to $110 billion in 1974. Most of this increase was extracted from such oil importing developed countries as West Germany, Japan, France, Italy, and the United States. But the oil importing developing countries were hit hard as well. The oil import costs for the 90 countries in this category rose from $4 billion in 1973 to over $15 billion in 1974, an increase that amounted to more than all the official foreign aid offered to these countries by the developed world. Further OPEC price increases added another $10 billion per year to Third World oil bills and were responsible for lowering the aggregate growth rates of the oil importing nations by over 20 percent.[2]

In addition to their direct impact, the oil price hikes also imposed indirect financial burdens on the developing countries. Higher oil prices also meant increased costs to them for those goods produced in the developed countries that had significant energy inputs such as machinery and fertilizer. At the same time, efforts by the developed countries to reduce inflation led to unemployment and recession, which further reduced imports from developing countries. Budget cutting to control inflation meant cuts in foreign aid, and the fight against unemployment led some governments to succumb to rising demands for protectionism.

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2 These figures are all taken from a standard textbook on economic development, Michael P. Todaro's Economic Development in the Third World (New York: Longman, 1981), pp. 490-493.

UNCTAD's World without OPEC

The pricing policies of OPEC obviously should have been a central concern at UNCTAD meetings. But they were not. On the one hand, the "interest" of "solidarity" among the Group of 77 (the bloc of some 120 developing nations) insured that OPEC and its energy prices would not appear on the agenda of UNCTAD meetings. On the other hand, the fact that the UNCTAD secretariat is beholden to the radicals who control the Group of 77 insured that the issue of OPEC and its impact would not appear in UNCTAD's studies and reports. The result: In the cornucopia of documents produced by the UNCTAD secretariat, there is not one paragraph, let alone one monograph, on OPEC's impact on international trade or development.

Unwilling to face the truth about OPEC, UNCTAD is forced to deal with the disastrous effects of the oil cartel by designing schemes to extract from the developed countries the direct and indirect costs that OPEC's price hikes have placed upon the energy-poor developing countries. This has led UNCTAD to call for debt relief, guaranteed export income facilities, greater amounts of foreign aid, the restructuring of world industry, brain drain taxes, the issuing of more paper gold, and an increase in borrowing quotas at the World Bank and the International Monetary Fund (IMF).

MULTINATIONAL CORPORATIONS: ENGINES OF GROWTH AND DEVELOPMENT

A second truth UNCTAD will not face is that multinational corporations (MNCs) have made great contributions to the economic growth of many developing nations. According to one scholar, Ankie M.M. Hoogvelt, more goods are now transfered internationally through multinational corporations and their affiliates than are exported and imported among nations. He also reports that over half of the manufactured goods exported by developing nations are a result of multinational activity.[3]

This outstanding MNC record of accomplishment apparently cannot be recognized by UNCTAD because the activities of the MNCs do not fit into the development schemes favored by UNCTAD. Development in participation with MNCs means private investment, private technology, the repatriation of profits, and the introduction of cultural and social patterns that are accused of being alien to the "genuine values and traditions" of developing country cultures.

Instead of seeing multinational corporations as engines of growth and development, UNCTAD ideologues see them as part of a

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[3] Ankie M. M. Hoogvelt, The Third World in Global Development (London: The MacMillan Press, 1982), p. 3.

"northern conspiracy" to control and dominate Third World countries in the post-colonial age. This viewpoint was recently articulated by Jan P. Pronk, Deputy Secretary-General of UNCTAD, in a special issue of the UNCTAD Bulletin designed to celebrate the organization's twentieth anniversary:

> ...as soon as [the developed nations] learned that they could continue to influence the political and economic process in the Third World with other means than those used in the colonial era, they turned towards them: foreign private investment soon became more important than development aid; on many markets investment, production and pricing policies became more strongly influenced by transnational companies than by intergovernmental bodies established to give weight to the interests of poorer countries....[4]

Given this perspective, it is not surprising that UNCTAD has been a vanguard in the United Nations crusade against multinational corporations. The U.N.'s majority and secretariat have been demanding that developed countries accept binding codes of conduct on restrictive business practices and on the transfer of technology. The purpose of these codes is to place the activities of multinational corporations under the control and scrutiny of international officials or Third World bureaucrats. Some aspects of these codes merely prohibit practices that restrict competition and production and are already banned in most developed countries. Other aspects of the codes go much farther, seeking to regulate interchanges between buyers and sellers that traditionally have been private transactions between MNCs and nationals of host countries. If these codes were adopted, almost all exchanges involving industrial designs, trademarks, patents, and inventor certificates would be subject to international regulation.

These codes also would force the MNCs to: (1) rapidly transfer technology commensurate with development needs; (2) recognize trade union representatives; (3) protect the rights of employees and their condition of employment; (4) train and promote local workers; (5) cooperate with the host government's plans for environmental protection; (6) make available to "Government, union, and the general public," "detailed financial accounts and other data" for the branch as well as the parent company; and (7) help alleviate balance-of-payments problems of the host governments (thus opening the door for the regulation of profits).

Such a vague list of "obligations" is an invitation to conflict and litigation between the MNCs and host governments. By merely inviting such conflict, the adoption of UNCTAD's codes will deter the flow of private investment funds to the developing

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4 UNCTAD Bulletin, September 1984, p. 7.

countries. If investors do invest and such conflicts do arise, however, such differences would be adjudicated in the courts of the developing country host.[5]

The ammunition in this crusade is a plethora of UNCTAD studies. Ironically, though, a number of these studies confirm that MNCs have made great contributions to particular developing countries, and they weaken the case that UNCTAD spokesmen and Third World radicals make against the MNCs.

UNCTAD's Committee on the Transfer of Technology, for example, commissioned studies on the transfers in the food processing industry in order to determine:

-whether the technology transferred was relatively costly and inaccessible to developing countries because of trademarks, patents, or other proprietary rights of the MNCs;

-whether the technology transferred was overpriced;

-whether the technology transferred was "inappropriate."

These studies and others were intended to document the charges that MNCs make technology relatively inaccessible, overpriced, and inappropriate. The evidence was then to provide the basis for a sympathetic document that would make the case for "A New Technological Order" that would abolish trademarks, patents, and other private controls on the flow of technology.

The studies on technology in the food processing industry, however, could not have been comforting to UNCTAD ideologues. Instad of mobilizing evidence against the MNCs, these studies documented three truths that UNCTAD apparently does not want to face:

1) MNCs have had a significant role in promoting the growth, development, and exports of some developing countries.

2) Significant amounts of technology are readily accessible for nations that want to put that technology to work.

3) Policies adopted by Third World governments can retard economic growth and development; indeed, such policies can even threaten the progress made by MNCs.

Milk Processing in Peru: An MNC Success Story

UNCTAD's study of the transfer of technology in the milk processing sector of Peru demonstrates the valuable contribution

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5 A good discussion of these codes may be found in Ervin Lazlo, et al., The Objectives of the New International Economic Order (New York: Pergamon Press, 1978), pp. 134-146.

that Perulac-Nestlé and Gloria-Carnation have made to the economic growth and development of that country.[6] According to the report, Peru's dairy processing industry was "stagnant" until the entry of the two multinationals in 1939. Then the industry grew rapidly. New processing techniques were introduced; more efficient methods of collection, transportation, and distribution were worked out; changes were made in production techniques; and large numbers of dairy farmers profited. According to this UNCTAD study, while the dairy processing sector flourished under the leadership of the multinationals, the other sectors of Peru's agriculture stagnated.

This progress was almost destroyed, however, when the Peruvian government adopted price controls to provide "cheap" food for its growing urban population. To keep down milk prices for urban consumers, the Peruvian government imported large quantities of powdered milk and offered it for sale to the MNCs for their processing purposes at subsidized prices, which were substantially lower than the prices of whole milk produced by dairy farmers within Peru. Consequently, as the UNCTAD study reports, "People drank cheap imported milk, while local producers of fresh milk went bankrupt."

The UNCTAD study reveals that the multinational corporations helped sectors of Peru's agriculture. Where the MNCs were not involved, agriculture stagnated. When the Peruvian government intervened, it adopted policies that decreased agricultural production; it undid part of the success of the MNCs; and it squandered scarce foreign exchange on unnecessary food imports.

Food Processing in Mexico: Accessible and Cheap Techology

UNCTAD's study of Mexico reveals that technology for food processing and canning was accessible, available, appropriate, and cheap.[7] Strangely, however, the study did not concentrate on this key factor. Instead the author focused on two issues barely related to Mexico's economic development or to the transfer of technology: (1) that technology was being used to process soft drinks instead of fruit juices; and (2) that rich agricultural land in northern Mexico was being used to grow tomatoes for export to the U.S. during the winter months. This UNCTAD study urged the Mexican government to prohibit these two "abuses." While the study implied that these problems somehow were caused by U.S. capitalism and multinational corporations, they in fact

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6 Technology and Food Processing in Peru: The Case of Milk Products Manufacture. A report prepared by the UNCTAD Secretariat in cooperation with Professor Manuel Lajo, Faculty of Economics, Pontifica Universidad Catolica of Peru, April 5, 1982.

7 Technology, Trade, and Transnational Corporations in the Food Processing Sector in Mexico: A Case Study. A study prepared by Sam Lanfranco, Assistant Professor of Economics, Boston University, March 19, 1982, TD/B/C6/75.

resulted from Mexican domestic policies. The author of the Mexican study merely discovered a number of policies adopted by the Mexican government of which he disapproved.

A Success Story in Thailand: Exports of Cassava Pellets and Pineapples

According to this UNCTAD study, Thailand made "striking advances" in commercially cultivating, processing, and exporting cassava pellets and pineapples.[8] In the early 1960s, neither of these crops was heavily cultivated, and exports of both were negligible. Within 15 years, however, cassava crops accounted for the second largest amount of acreage planted in Thailand (after rice), and the production of pineapples had risen from 1,000 tons in 1967 to one billion tons in 1977. Today, both commodities account for one-tenth of Thailand's total exports.

Since most of the processing of these products is done in Thailand, 80 percent of the value of the cassava pellets remains within the country, and well over half of the prices go to the small farmers who grow them. Similarly, 80 percent of the value of the export of canned pineapple remains within Thailand. Almost all of this increased production, moreover, has taken place in areas that were previously uncultivated.

The idea for this came not from "external forces" but from Thailand's Board of Investment, which particularly encourages export-oriented, agriculture-based activities that rely on small independent farmers. Finally, in terms of technology transfer and multinational corporations, this study uncovered abuses by the host government instead of the MNCs--the processing plants were mostly copied and reconstructed by Thai entrepreneurs in violation of existing international agreements on patent and property rights.

UNCTAD's study of the cassava pellet and pineapple processing industries demonstrates a number of truths that UNCTAD does not like to face:

1) Export-oriented policies can foster growth and development.

2) Free markets and economic incentives can foster economic development.

3) Small farmers can be efficient producers, especially when they are able to share in the gains of increased production.

4) Some technology is available and can be used appropriately in developing countries.

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8 Technology and Food Processing in Thailand. A report prepared by researchers at Thammasat University, Bangkok, April 6, 1982, TD/B/C6/AC.6/5.

DOMESTIC POLICIES IN THIRD WORLD COUNTRIES: A CRUCIAL FACTOR IN DEVELOPMENT

None of these case studies presents any evidence that the activities of multinational corporations have been obstacles to the economic growth and development of the nations concerned. In fact, all of the evidence is to the contrary. In Peru, MNC activities transformed a stagnant dairy industry into one of the most healthy in South America. Policies pursued by the Peruvian government, on the other hand, fostered stagnation and deterioration in the other agricultural sectors and almost undid the success of the MNCs. In Mexico, MNCs were largely responsible for vastly increasing the agricultural productivity in northern Mexico. In Thailand, government policies fostered the production, processing, and export of new cash crops, which resulted in much greater income for its farmers.

Within UNCTAD's own documents, then, there is evidence that the world view of UNCTAD officials and staffers is mistaken. Yet, in a document that drew upon these studies, the Secretary-General of UNCTAD, Gamani Corea, still saw the pressing need for "a New Technological Order." Nowhere in the Secretary-General's document was there an acknowledgement that MNCs have contributed toward the growth and development of the countries studied.

The reason for this omission is obvious. Thailand's export-oriented activity is an approach to development rejected by UNCTAD ideologues. As a result of Thailand's efforts, development has occurred by producing more and earning more--that is, more pineappples are available to more people, and the farmers who produce the pineapples are earning more money, which will be used to spur the production of more goods and services.

If applied to Thailand, UNCTAD's approach would have concentrated on producing fewer pineapples and charging more for them, and the increased earnings would go not to farmers, who might "squander" them on consumption goods, but to government bureaucrats, who would "invest" them in development projects designed to fulfill national economic plans.

CONCLUSION

The above case studies indicate another truth that UNCTAD does not want to face--that the success or failure of development programs depends heavily upon the domestic policies and programs pursued by Third World governments. Over the past 20 years, some countries have increased agricultural production while others have not. Some countries have greatly expanded their exports, while the exports of others have declined and stagnated. The policies that Third World governments adopt do matter when it comes to economic growth and development.

Given the abundance of information available, it would seem that an organization concerned with trade and development would engage in comparative, evaluative research of development programs of all kinds--agriculture, medicine, public works, light manufacturing, heavy industry, export promotion. The results of this research could then be used both to inform UNCTAD members generally and to allow delegates from developing countries to review the evidence, compare their experience, and advise each other. Such studies cannot be undertaken by UNCTAD, however, because of what they reveal about the world view and philosophy of UNCTAD.

Despite the words "trade and development" in its title, UNCTAD is really about power--power for OPEC and new cartels, power over the International Monetary Fund (IMF), power over the General Agreement on Tariffs and Trade (GATT), and power for international bureaucrats. The purpose of this quest for power is the extraction of billions of dollars of resources from the developed countries in order to ameliorate the major effects of OPEC's price hikes on UNCTAD's Third World majority and to hide the failures of collectivist development plans throughout the Third World. The proposals that were prepared for UNCTAD VI, held in 1983 in Belgrade, added up to an "immediate relief" program that, if adopted, would have cost the developed capitalist countries about $90 billion.[9]

But as some of UNCTAD's own studies reveal, more money, international planning, and greater controls on multinational corporations will not make it easier for Third World countries to grow and develop. If UNCTAD really wants to spur development, it must study those countries that have succeeded and failed in this area over the past two decades. If the Organization undertakes such studies, however, it soon will find that much of what UNCTAD opposes, namely, the use of markets and private sector forces, is largely responsible for the development successes in the Third World.

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9 The Times (London), March 31, 1983.