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## U.N. CONFERENCE ON TRADE AND DEVELOPMENT: TESTING THE REAGAN COMMITMENT TO THIRD WORLD GROWTH

### INTRODUCTION

In several days, U.S. officials will be flying to Geneva to attend the 33rd meeting of the Trade and Development Board of the United Nations Conference on Trade and Development. Convening on September 1, this meeting may be the most crucial UNCTAD meeting since Ronald Reagan took office. It will provide the Administration a chance to test whether UNCTAD's new officials and its Third World majority are ready to consider strategies of economic growth designed to free developing Third World economies from the dead hand of government.

UNCTAD is an agency of the U.N. General Assembly boasting a staff of 448 and a two-year budget of \$57 million. Over \$14 million of this is supplied by the United States. The Trade and Development Board meets twice yearly to carry on the work of UNCTAD between the organization's plenary meetings, which are held every three or four years. Membership on the Board is open to all members of UNCTAD.

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This is the sixth study in a series examining UNCTAD. It was preceded by Heritage Backgrounder No. 348, "Cheating the Poor," April 30, 1984; Backgrounder No. 374, "Blocking Economic Growth," August 20, 1984; Backgrounder No. 394, "The Truths UNCTAD Will Not Face," November 26, 1984; Backgrounder No. 438, "The Bias Impeding Third World Growth," June 4, 1985; and Backgrounder No. 477, "The U.S. Must Reassess Its Role," December 30, 1985.

UNCTAD was created in 1964 to help Third World nations grow and develop through expanded international trade instead of the charity of foreign aid. Since its establishment, however, UNCTAD has done little to spur either trade or development. Instead, the organization has gained a reputation as one of the most anti-Western and ineffectual members of the U.N. family. Worse, it embraces a philosophy of economic development that relies almost exclusively on state control and planning and is hostile toward free market and private enterprise options. As such, UNCTAD has become of increasing concern to Washington policy makers who now, in contrast with the 1970s, want to encourage Third World nations to try economic strategies that have a history of success.

The Trade and Development Board meeting will provide U.S. delegates with both challenges and opportunities. The challenges involve defending the U.S. record as the most open of the developed market economies and countering the U.N. Third World majority's increasingly shopworn ideology of the New International Economic Order, which blames the industrial democracies for the Third World's economic ills. The opportunities involve trying to force UNCTAD to look at the strategies of Singapore, South Korea, Kenya, and other developing countries that have reaped great benefits by taking advantages of opportunities within the international economic system and have found development formulas that work. These challenges and opportunities also will arise in dealing with the most important business of the meeting--selecting the site and agenda for UNCTAD VII, the plenary meeting scheduled for next spring.

#### NEW LEADERS: NEW OPPORTUNITIES

Over the past decade, UNCTAD has been a vanguard in the effort to create a New International Economic Order. Recently, Surenda J. Patel, former head of the Technology Division of UNCTAD, frankly and accurately characterized the role of Secretariat officials in his division as that of mere "scribes" in the efforts of radical developing countries to create a statist New International Economic Order.<sup>1</sup> Patel's characterization of his Secretariat officials as scribes applies equally well to all of UNCTAD's divisions.

Recently, however, several members of the Secretariat who led the quest for a New International Economic Order have left UNCTAD. Gone are: Gamani Corea of Sri Lanka as UNCTAD's Secretary-General; Jan

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1. Surenda J. Patel, "The Technology Transformation of the Third World: Main Issues for Action," in Michael Z. Cutajar, ed., UNCTAD and the South-North Dialogue (New York: Pergamon Press, 1985).

Pronk, the Dutch socialist who viewed multinational corporations as neocolonial instruments of Western domination, as Under-Secretary-General; and Surenda Patel.

Taking their places are leaders who appear to be an unexpected improvement, notable for their balance, judiciousness, and discretion. The new Secretary-General, Kenneth K. Dadzie of Ghana, served with distinction as U.N. Director-General for Development and International Economic Cooperation. His immediate assistants are Deputy-Secretary-General Alister McIntyre of Grenada and Yves Bertholet of France, both of whom are widely regarded as fair and flexible. This new leadership could transform UNCTAD from a weapon against the postwar liberal economic order into a rational organization where agreement among the developed and developing nations could be sought on the definition of trade and development problems and their solutions.

The prospects for such a transformation brightened this June when the developing countries, meeting in Kuala Lumpur, decided to establish a secretariat for the Group of 77, the umbrella organization for some 130 Third World nations.<sup>2</sup> Because the Group of 77 heretofore had no secretariat, it had used its majority at UNCTAD to transform the UNCTAD Secretariat into a secretariat for the developing countries. As such, the UNCTAD Secretariat's efforts and studies predictably have suffered from an anti-West, pro-Third World bias, producing flawed studies and one-sided agendas. The Group of 77's politicization of the UNCTAD Secretariat understandably cost UNCTAD credibility among the developed countries.

UNCTAD's new leadership is well aware of the price this bias has imposed on the Secretariat and on the developing countries. Once the Group of 77 has its own secretariat, UNCTAD's new leaders could take control of the UNCTAD Secretariat and direct its focus toward evaluating trade and development proposals and seeking ways to encourage agreement between developed and developing countries. Such a change would enhance vastly Western perceptions of the credibility and utility of UNCTAD.

The major question facing UNCTAD is whether it can transform itself into an open-minded forum for studying, discussing, and genuinely considering different approaches to enhancing trade and development in the Third World. Such a transformation would break the pattern of more than a decade in which UNCTAD has been a trumpet for the New International Economic Order.

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2. At the first meeting of UNCTAD in 1964, there were 77 countries in this caucus.

## MEETING THE CHALLENGE OF UNCTAD NEGATIVISM ON TRADE AND PROTECTION

September meetings of the Trade and Development Board always discuss the Secretariat's annual Trade and Development Report. If this year's Report is like its predecessors, it will be filled with condemnations of protectionism in the North, gloom and doom predictions based upon pessimistic assumptions about development prospects in the South, and pleas for more resource transfers from the Western nations.

Admittedly, the industrial nations impose more tariff and nontariff barriers than Adam Smith and his offspring would like. Even so, no nation has opened its markets more to the goods and services of developing nations than has the U.S. And no nation has done a better job of stemming domestic protectionist forces. This was confirmed dramatically this month by congressional refusal to override Reagan's veto of measures that could have imposed severe limits on U.S. textile imports.

In 1984, world trade increased by 9 percent; the U.S., which represents only 6 percent of the world's population, accounted for 50 percent of this increase. In 1984, U.S. non-oil imports from the developing countries totaled \$80.3 billion, a jump of 27 percent over 1983 and 50 percent over 1982. Under the U.S. Generalized System of Tariff Preferences (GSP), which treats developing countries particularly leniently, \$13 billion worth of Third World products entered U.S. markets duty free in 1984 compared to \$10 billion in 1983.<sup>3</sup> Imports of manufactured goods from the developing countries totaled \$46 billion in 1984. This is 55 percent of all the manufactured goods that all Third World states export to all developed market economies. And while the rate of Third World manufactured goods imported by the European Common Market has been declining significantly, U.S. imports of Third World manufacturers have increased at a rate of 19 percent per year between 1980 and 1984.<sup>4</sup>

In view of this extraordinary record, U.S. delegates should not be on the defensive when the discussions in Geneva turn to trade and protectionism. Instead, they should stress that, when it comes to boosting Third World economies, the U.S., by buying more Third World goods than all other industrial nations combined, is the champion.

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3. Based upon figures presented by the GATT representative at the 30th meeting of the Trade and Development Board in March 1985. TD/B/1049, March 1985, p. 95.

4. The figures are taken from the UNCTAD document, Salient Features of Trends and Policies in Trade of Manufactures and Semi-Manufactures, TD/B/C.2/223 (Part I), April 3, 1986.

## TAKING ADVANTAGE OF OPPORTUNITIES IN PREPARING FOR UNCTAD VII

At UNCTAD's September session, delegates will select the site and set the agenda for UNCTAD VII. While the U.S. delegates should continue the Reagan Administration's policy of deferring to the wishes of Group of 77 concerning the site, they should make it clear that, if Havana is selected, the U.S. will not attend.

As for the UNCTAD VII agenda, the U.S. should insist that significant, sustained attention be given to trade and development policies that work. The U.S. delegates must insist that the time has come for an UNCTAD plenary meeting to take a "pro-growth" and "pro-development" posture by focusing on those strategies that have spurred growth in the past quarter century. And the State Department, at its top levels, should enlist Western European backing of these points.

To date, every UNCTAD plenary has focused on alleged "external" barriers that impair Third World trade and development. UNCTAD has cited such culprits as: tariffs that treat developing countries and developed countries equally; nontariff barriers levied against Third World exports; synthetic products such as polyester fabrics and research on synthetics that create cheap substitutes for the Third World's natural products; multinational corporations, patents, and trademarks; alleged declining terms of trade and unstable commodity prices; alleged restrictive business practices; alleged inequitable transfers of technology; debt and debt servicing costs; and of course, "inadequate" aid from the developed Western countries.

And at every UNCTAD plenary since 1964, a timeworn series of nonmarket "solutions" to these problems has been steamrollered into resolutions over the opposition or abstention of the handful of developed countries. These resolutions, among other things, called for: expanded tariff preferences for the Third World; codes of conduct to regulate multinational corporations, business practices, and transfers of technology; a "Common Fund" to regulate commodity prices; a new aid facility to fund projects for processing commodities; more foreign aid; new allocations of "paper" gold; a new Compensatory Financing Facility to "compensate" Third World countries for shortfalls in commodity income; and schemes for international taxation such as a "brain drain" tax.

Repeatedly, the Group of 77 has submitted volumes of "documents" of what it insists are obstacles to development. In response, the

industrial countries have either voted against resolutions embodying these proposals, ignored them, or forced watered-down, compromise proposals.

These resolutions have yielded no economic growth in the Third World. Yet while UNCTAD meetings were producing rhetoric and paper, some developing nations were doing very well economically. For almost a decade, U.S. delegates have tried to persuade UNCTAD to look at the strategies used by these developing nations to advance. But UNCTAD's agenda remained closed to discussion of such examples. Now, however, the Group of 77 may be ready to open UNCTAD a bit and allow it to address the questions that it has ignored determinedly for more than a decade. The two key questions are:

o What strategies have increased exports and export income in the developing world in the past two decades?

o What development strategies have increased real wealth and led to higher standards of living in the developing world?

For those who really want to know how to expand trade, material for case studies abounds.

Example: Ten countries have expanded their exports of manufactures by over 30 percent per year in current prices between 1970 and 1984: Singapore, Thailand, Indonesia, Venezuela, the Dominican Republic, Sri Lanka, Saudi Arabia, Bahrain, Mauritius, and El Salvador.<sup>6</sup> UNCTAD should be asking: What strategies produce such statistics?

Example: One UNCTAD study mentioned in passing Brazil's startling success in the manufacturing and food processing sectors in recent years. Between 1980 and 1984, manufactured goods rose from 44 to 54 percent of that nation's exports. In 1980, Brazil exported virtually none of the motor vehicles it manufactured; four years later, it was exporting 20 percent. In addition, Brazil provides 35 percent of the world's exports of fruit juices and is the world's largest exporter of concentrated orange juice, controlling 60 percent of the world trade in this product.<sup>7</sup> UNCTAD should be asking: Are there lessons to be learned from Brazil's gains?

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5. For a summary of the "accomplishments" of UNCTAD, see Stanley J. Michalak, UNCTAD: An Organization Betraying Its Mission (Washington, D.C.: The Heritage Foundation, 1983).

6. See Salient Features of Trends and Policies in Trade of Manufactures and Semi-Manufactures, TD/B/C2/223 (Part I), April 3, 1986.

7. Protectionism and Structural Adjustment, TD/B/1039 (Part II), January 1985, p. 5.

U.S. and other Western delegates should insist that the UNCTAD VII agenda include a lengthy panel discussion on the startling successes that some countries have been enjoying in various export sectors. Appearing on such panels should be Third World entrepreneurs, civic leaders, and economists. UNCTAD's Secretariat could then conduct follow-up studies on successful strategies of trade promotion and export diversification. The entrepreneurs and expert panelists at UNCTAD VII might serve as an initial core of technical experts to advise officials and entrepreneurs in other countries.

#### DOING LESS BUT DOING IT IN GREATER DEPTH

Over the years, UNCTAD plenary agendas have been of laundry list length, ranging from such central and crucial topics as commodities and debt to the lesser problems of landlocked countries and such nongermane topics as disarmament and the "liberation" of Palestine. Some of the reasons for the lengthy agenda are understandable--the Group of 77 consists of many kinds of developing nations with a wide range of problems. In fact, the coalition is frequently cemented by creating agendas and proposals that contain "something for everyone." The nongermane items, meanwhile, stem from the general politicization of U.N. agencies and the desire of the nonaligned movement to turn every agency of the United Nations into a mini-General Assembly.

Given the changes in UNCTAD's leadership and heightened prospects for a changing strategy by the Group of 77, however, UNCTAD VII may be able to limit the number of issues it explores and to examine them in much greater depth. The U.S. delegates should push for an agenda which includes one or two broad topics to be examined in great detail. The developing countries probably will want to focus on the interrelationship among trade, finance, protectionism, and development prospects. This item might be coupled with a Western item on successful trade and development strategies.

Other agenda items could focus on UNCTAD's record in such areas as commodities, manufactures, trade preferences, invisibles and financing related trade, shipping, technology, and economic cooperation among developing countries--all of the main subdivisions of the organization's working units. The Secretariat could provide status reports in each of these areas, detailing what problems have been tackled and with what impact, which are still being considered, and where current discussions now stand. Panels might be organized in each of these areas to allow Secretariat members, government experts, and independent scholars to comment on UNCTAD's past experience and to make suggestions for UNCTAD's future work.

If UNCTAD needs anything, it is awareness of the ideas of independent scholars and experts. Sessions allowing audits of UNCTAD's work from autonomous individuals would be refreshing to

delegates and Secretariat officials alike. From such sessions, representatives from developed and developing countries might work with Secretariat officials in creating a tentative and realistic work agenda for the three or four years until UNCTAD VIII.

The Group of 77's past strategy of steamrolling resolutions unacceptable to the developed countries, and then using succeeding UNCTAD meetings to rebuke the developed countries for not executing resolutions that were unacceptable to them in the first place, has done nothing to advance trade and development. It thus would serve UNCTAD well if the organization would avoid passing broad resolutions and instead focus on creating research programs mutually acceptable to developed and developing nations.

#### FOCUSING ON THIRD WORLD OBSTACLES TO DEVELOPMENT

As part of the preparation for UNCTAD VII, Washington should insist that UNCTAD spotlight an increasingly significant obstacle to development created by developing countries themselves--the flight of scarce capital from the elites in developing countries to financial institutions in the developed nations. Aid and other resources that flow from North to South and then boomerang right back North do little for trade or development. The "resource flight" from the Philippines during the final stage of the Marcos regime appears to be just a whiff of the total problem. Rough estimates make it clear that capital flight from developing countries to industrial states has been much greater than the amount that would have been transferred to the Third World under UNCTAD's most grandiose schemes for redistributing international wealth. According to the Wall Street Journal, capital flight in the past decade includes:<sup>8</sup>

Argentina - - - -	\$26 billion
Brazil - - - - -	\$10 billion
India - - - - -	\$10 billion
Indonesia - - - -	\$ 5 billion
South Korea - - -	\$12 billion
Malaysia - - - -	\$12 billion
Mexico - - - - -	\$53 billion
Nigeria - - - - -	\$10 billion
Philippines - - -	\$ 9 billion
Venezuela - - - -	\$30 billion.

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8. "Flight Capital's Destination Often Is U.S.," The Wall Street Journal, May 27, 1986, p. 2.



If these figures are correct, about \$160 billion in "resources" has been "extracted" from these ten developing countries alone over the past decade. This has been done not by multinational corporations or Western banks or declining terms of trade, but by the ruling elites in the developing countries. The significance of these extractions was starkly presented in the World Bank's World Development Report 1985. According to the Bank's data, capital outflows as a percentage of capital inflows amounted to 136 percent for Venezuela, 65 percent for Argentina, 48 percent for Mexico, 27 percent for Uruguay, and 20 percent for Portugal.<sup>9</sup> Reports The Christian Science Monitor: "Venezuelans are said to have enough money in foreign bank accounts to pay off the country's \$35 billion foreign debt."<sup>10</sup>

Next month's Trade and Development Board meeting and next year's UNCTAD VII will be told, probably endlessly, about the crushing burden of Third World debts. While the burden and problems of this debt cannot be denied, U.S. delegates should point out that part of the responsibility for the debt problem lies with the Third World. UNCTAD has commissioned experts to determine how much the brain drain is costing developing countries, and members of the Group of 77 are preparing to propose a tax on Western countries to which Third World experts migrate. This tax could transfer about \$500 million a year from developed to developing countries. Yet the net cost of the brain drain and the potential yields from any brain-drain tax pale compared to the resources lost to development through capital flight.

U.S. delegates should insist that UNCTAD VII create a Committee of Experts to study "Resource Flight From Developing Countries." It could compile bibliographies, take testimony, commission case studies, clarify issues, explore alternative solutions, and report to the Trade and Development Board through UNCTAD's Committee on Invisibles and Financing Related to Trade.

#### CONCLUSION

At next month's Trade and Development Board meeting in Geneva, the U.S. should seek to blunt UNCTAD's sterile negativism and reliance on government of the past and move the organization into more positive and balanced directions. The U.S. delegates should:

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9. World Development Report 1985 (New York: Oxford University Press), pp. 62-63.

10. Tyler Bridges, "With its 70's oil spree over, Venezuela looks to mopping up debt," The Christian Science Monitor, September 9, 1985, p. 25.

o Emphasize the positive U.S. record in trade to counter the gloom and doom assessments that will probably appear in this year's Trade and Development Report, 1986.

o Oppose efforts of the Group of 77 to transfer more resources from developed to developing countries through such schemes as a new compensatory financing facility, generalized debt relief programs, and brain-drain taxes.

o Insist that the UNCTAD VII agenda include an examination and discussion of strategies for trade and development that have succeeded during the past quarter century.

o Seek an agenda for UNCTAD that concentrates on a relatively few core items to be explored in depth.

o Insist that items on UNCTAD VII's agenda be open to the views of Secretariat officials, independent scholars, and experts who act in their capacity as professionals.

o Call attention to, and seek to have placed on the agenda of UNCTAD VII, a consideration of the problem of capital flight which robs developing countries of resources for development and exacerbates their debt problems.

o Oppose efforts by the Group of 77 to load the agenda with unrelated, politicized items such as those designed to isolate and delegitimize Israel and to provide support for terrorist national liberation movements.

o Declare that, if Havana is selected as the site of UNCTAD VII, the U.S. will not participate.

o Press Japan and West European countries to back U.S. efforts to make UNCTAD a more effective agency.

For well over a decade, UNCTAD has been pushing a series of statist schemes that have failed the developing countries the organization was created to serve. If UNCTAD's ideologues were to have their way, developing nations would remain poor forever. In fact, experience now confirms that growth through government leads only to the growth of government and bureaucracy.

Increasingly, developing nations are discovering the power of market incentives and private entrepreneurship. Nations that have based their development strategies on the risks and opportunities of national and international markets are doing well in terms of growth and development. The time thus has come for UNCTAD to look carefully at those development strategies that have succeeded and those that have failed.

For almost six years, the Reagan Administration has been trying to turn UNCTAD into an open forum where all approaches to development are examined and tested. Next month's meeting of the Trade and Development Board and next spring's UNCTAD VII will test how well the Administration's strategy has been working. If UNCTAD VII turns into a mere replay of its previous conferences, the Administration should reassess U.S. strategy and considering disassociating itself from UNCTAD.

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