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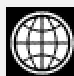

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McNamara Papers

Commission on International Trade and Investment Policy, Febr. 1971 (vol 1) 1970 - 1971

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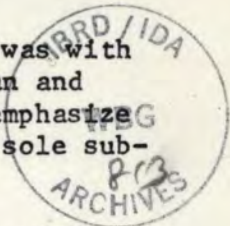

NOTES FOR MEETING WITH COMMISSION ON INTERNATIONAL TRADE AND INVESTMENT POLICY

1. Because my knowledge of international trade is so limited, it was with considerable diffidence that I accepted the invitations of your Chairman and Executive Director to appear before the Commission. I did so only to emphasize the link which exists between trade and development. That will be the sole subject of my remarks this morning.

2. During the 1960's, the first Development Decade, the 90 LDC's, with a population approximating 1.5 billion, advanced economically further and faster than had been thought possible at the beginning of the period. The growth objective for the first Development Decade had been a 5% increase per annum in GNP. This was achieved. It was a rate of growth greater than that which had been achieved by the more advanced countries at a comparable stage in their development. The bulk of the capital funds required to support that growth had been generated by the domestic savings of the LDC's; only approximately 20% came from external sources.

3. Although the growth objective of the first Development Decade was achieved, it is frequently said "development failed" because at the end of the period the quality of life in so many of the LDC's was unacceptably low:

a. At least one-third to one-half of the world's peoples suffer from hunger or malnutrition;

b. There are 100 million more illiterates today than 20 years ago -- a total of 800 million.

c. Infant mortality is high -- four times as high as in the developed countries -- and life expectancy is low;

d. Approximately 20% of the labor force in the LDC's is unemployed and unemployment is growing.

4. In November of last year the members of the United Nations, including the United States, reviewed these conditions and concluded that the speed of development must be accelerated in the 1970's and that this would require an annual increase in GNP of at least 6% -- a 20% increase over the rate of growth realized in the 1960's.

5. Although as in the 1960's the bulk of the capital required to support further growth would come from the domestic savings of the LDC's, achievement of the 6% growth rate would require an increase in imports -- raw materials, capital goods, etc. -- of close to 7% per year.

6. The imports into the LDC's must be financed from foreign exchange received from public aid, private investment, and the proceeds from export sales remaining after profit remittances and payment of debt service.

7. Public and private aid flows in the 1970's will not increase by as much as 7% per year and debt service is rising at rates in excess of 7%; therefore, if imports are to grow by 7% per year, exports must increase by somewhat more than 7%.

8. Because exports of primary products, excluding fuels, (approximately 80% of LDC exports, excluding fuels), are expected to grow at rates of only 3% to 4% per year, manufactured exports must grow at rates approximating 15% per year, i.e., from $5.4 billion in 1968 to $28 billion in 1980.

9. Manufactured exports of LDC's grew by nearly 15% per annum in the 1960's, but a continuation of that growth will be much more difficult in the 1970's. If it is to be achieved, the LDC's must:

a. Offset the cost disabilities of their exports due to overvalued exchange rates, high domestic tariffs, and taxes on the imports used in export production;

b. Develop measures of export promotion;

c. Apply sounder financial policies (credit policies which do not discriminate in favor of import replacement; price stability; a vigorous competitive banking system); and

d. Encourage economic integration in developing areas.

And the developed countries in turn must provide the necessary markets by removing discriminatory tariffs and non-tariff barriers. By reducing tariffs, the UNCTAD proposal to grant preferential treatment to the exports of developing countries should expand their trade by approximately $1 billion per year (of which approximately $400 million would be represented by imports into the United States).

10. The 15% rate of growth in LDC manufactured exports would over the decade nearly quadruple their trade in these products, but the total volume would continue to remain but a small part (approximately 5%) of the total manufactured imports of the advanced countries. Although the advanced countries would benefit by shifting to a more perfect application of the principle of comparative advantage, there would be heavy penalties to certain sectors of their economy and these will be strongly resisted by the individuals and firms affected unless appropriate readjustment policies and procedures are introduced.

11. To dramatize the action required in the advanced countries and to measure the progress achieved, it would be desirable to adopt some quantitative targets. At present the manufactured imports of the advanced countries from the LDC's amount to about one-third of 1% of GNP. Achievement of the 15% rate of growth in LDC manufactured exports would raise that to 1% of the advanced countries' GNP by 1980, and I suggest that this be the target -- it could well be split into a target of .75% of GNP for such large countries as the U.S. and Japan and 1.5% of GNP for smaller countries.

RMcN
2/22/71

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IX - 1 - Staff Agenda

COMMISSION ON INTERNATIONAL TRADE AND INVESTMENT POLICY

1900 L STREET, N.W.
WASHINGTON, D. C. 20036

COMMISSION MEETING NO. 9

COMMISSION OFFICES

1900 L Street, N. W., Suite 712, Washington, D. C.

February 24, 1971

9:00 A.M. - 5:30 P.M.

AGENDA

Partners of Special Interest - Japan and Canada

Morning Session: (9:00 A.M. - 12:45 P.M.)

JAPAN

Speakers: Professor Henry Rosovsky, Chairman, Department of Economics, Harvard University

Professor Ezra Vogel, Associate Director, East-Asian Research Center, Harvard University

Dr. James C. Abegglen, Vice President The Boston Consulting Group, Inc.

Philip Trezise, Assistant Secretary of State for Economic Affairs

Commentator: Dr. Weldon Gibson, Executive Vice President, Stanford Research Institute

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Papers: Professor Rosovsky - "The Economic Position of Japan: Past, Present and Future" (IX-3)

Professor Vogel - "The Social Base of Japan's Postwar Economic Growth" (IX-4)

Dr. Abegglen - (IX-5)

Mr. Trezise - (IX-6)

Supplementary Materials (IX-7)

a. JAPAN: Images and Realities by Richard Halloran; Chapter 4 "Establishment and Consensus"

b. How the Japanese Mount That Export Blitz, Article from FORTUNE, September 1970 by Louis Kraar

c. The Barriers Drop Slowly
To Japanese Consumers, 'Import' Means European; both articles taken from The New York Times, January 18, 1971

d. The Economic Growth of Japan, Article from SCIENTIFIC AMERICAN, March 1970, Volume 222, Number 3

e. Statistical Data - Staff

12:45 - 2:00 P.M. Lunch - Mayflower Hotel

February 24, 1971

Afternoon Session: (2:00 P.M. - 5:30 P.M.)

(1) CANADA (2:00 P.M. - 4:30 P.M.)

Speakers: Professor Harry Johnson, London School of Economics, University of Chicago

Edgar Ritchie, Under Secretary of State for External Affairs, Canada

Philip Trezise, Assistant Secretary of State for Economic Affairs

Henry W. Welch, Comptroller, General Motors Corporation

Commentator: Nat Weinberg, Special Projects Director United Auto Workers Union

Papers: Professor Johnson - "The Special Economic Relationship between the U.S. and Canada" (IX-8)

Mr. Trezise - U.S.-Canadian Economic Relations (IX-9)

Mr. Welch - (IX-10)

(2) Executive Session (4:30 P.M. - 5:30 P.M.)

6:30 - 7:15 P.M. Cocktails

7:15 - 8:15 P.M. Dinner

Mayflower Hotel

Evening Session (8:15 - 9:45 P.M.)

Panel on Import Competition in the U.S. Textile and Steel Industries, Charles F. Myers, Chairman

Speakers: Mr. Robert P. Lynn, Vice President Burlington Industries, Inc.
Mr. George Stinson, Chief Executive Officer, National Steel Corporation
Mr. Frank L. Fernbach, Assistant to the President for Special Projects, United Steel Workers of America

February 25, 1971

Morning Session: (8:30 A.M. - 12:15 P.M.)

Trade and Investment Policy toward the Less Developed Countries

Speakers: Dr. Raul Prebisch, Director General, United Nations Latin American Institute for Economic and Social Planning

Dr. Willard Cochrane, Professor of Agricultural Economics, University of Minnesota

The Honorable Robert McNamara, President of the World Bank

Mr. Henry Brodie, formerly Head of U. S. Economic Mission to GATT and UNCTAD, Geneva, Switzerland

Papers: Dr. Prebisch - "Issues to be Brought before the Commission on International Trade and Investment Policy Concerning Relations with Developing Countries" (IX-11)

Dr. Cochrane - "Agricultural Aspects of U. S. Economic Relations with Developing Countries" (IX-12)

Mr. McNamara - "Policies toward Developing Countries" (IX-13)

Mr. Brodie - "U. S. Policies toward the Trade of Developing Countries (prepared by U. S. Department of State) (IX-14)

12:15 - 1:00 P.M. Box Lunch

February 25, 1971

Afternoon Session: (1:00 - 4:30 P.M.)

(1) Trade and Investment Policy Toward Communist Countries

Speakers: Professor Franklyn Holzman, Tufts University

Samuel Pisar, International Attorney, Paris, France

Richard Allen, Vice President, International Resources Ltd.

Nicholas deB. Katzenbach, Vice President and General Counsel, International Business Machines Corporation

Available for Questions and Discussion:

Robert Wright, Director, Office of East-West Trade, Department of State

Papers: Holzman - "East-West Trade and Investment Policy Issues" (IX-15)

Pisar - "Practical Aspects of U.S. Trade (and Investment) with Communist Countries (IX-16)

Allen - "Testimony before the Subcommittee on Foreign Economic Policy of the Joint Economic Committee, December 7, 1970" (IX-17)

Wright - "Current and Prospective U. S. Policies toward Trade and Investment with Communist Countries" (IX-18)

(2) Executive Session - (3:30 - 4:30 P.M.)

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EFFECTS OF TRADE POLICY ON ECONOMIC DEVELOPMENT

Statement by Robert S. McNamara

for the

COMMISSION ON INTERNATIONAL TRADE AND INVESTMENT POLICY

February 16, 1971

EFFECTS OF TRADE POLICY ON ECONOMIC DEVELOPMENT

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SUMMARY

(i) The continued economic progress of less developed countries depends on their being able to increase imports from the U.S. and other advanced countries at a rapid rate. This requirement stems from the fact that most of their capital goods must be acquired abroad, as must a large portion of industrial raw materials, fertilizer and other continuing requirements. In its plan for the Development Decade of the 1970s, the United Nations has proposed a target growth rate of GNP of 6% per annum for the LDCs; this would require an import growth of almost 7%. World-wide endorsement of these targets is based in part on the premise that successful economic development of the LDCs is essential to their social well-being and political stability.

(ii) To obtain the foreign exchange to pay for imports, the developing countries rely on three principal sources: export earnings (about 75%); public loans and grants (about 15%); and private capital (about 10%). For countries with the lowest per capita incomes, international aid is usually extended in the form of grants or of loans on concessional terms. Because this type of aid is scarce, countries with higher incomes usually receive loans at rates which approach conventional or market levels. Under this pattern of financing, payments of principal and interest on debt are absorbing a rising share of available foreign exchange. Several countries have already run into difficulties and had to reschedule debt payments. To cover foreign exchange needs for debt servicing, plus a 7% growth of imports, export earnings must continue to expand at a rate exceeding 7% per year, even if flows of foreign aid and private investment reach the target level of 1% of GNP.

(iii) As in the past decade the rate of growth of exports from the LDCs is likely to be less than that of the more developed countries. This is because exports of foods and raw materials (excluding fuels), which are the main components of LDC exports, are growing at average rates of only 3 to 4% per year.

(iv) Manufactured exports offer the best opportunities to the LDCs for more broad and sustained growth. As they start from a small base, they have so far been able to register a rapid increase of 15% per year since 1962, and are becoming increasingly diverse. However, export performance of developing countries has been mixed. A few have adopted financial policies and other measures to promote and finance trade, which yield favorable results on international markets. Others are only beginning to make suitable adaptations, or have yet to do so.

(v) There are substantial barriers to imports from the LDCs in most of the developed countries. It has to be recognized that imports can bring severe dislocations in particular sectors. However, since there is a net gain to the national economy as a whole from basing trade

policies on the principle of comparative advantage, programs of re-adjustment assistance need to be developed and vigorously carried out. Doing so should make it easier for the more developed countries to adopt measures to liberalize imports from LDCs. These include the U.N. proposal for generalized tariff preferences for LDC exports and reduction of non-tariff barriers.

(vi) Countries might find it easier to progress along these lines if there were an agreed target for LDC trade, parallel to the U.N. aid target of 1% of the GNP of the developed countries. At present imports of manufactured goods from less developed countries amount to about 1/3 of 1% of the GNP of the advanced countries. To allow developing countries to earn the foreign exchange needed for their continued growth, I suggest that advanced countries as a group should adopt policies that would permit manufactured imports from LDCs to rise to 1% of their GNP by 1980. Such a target should also take account of national variations in size and total volume of imports, so that a reasonable objective for the United States might be 3/4 of 1% of GNP, compared to the present level of about 1/4 of 1%. An increase of this magnitude spread over a decade and supported by appropriate readjustment assistance need not lead to significant unemployment. The resulting growth of LDC manufactured exports would produce only a small increase in the LDC share of total exports of manufactures and would help to offset the slow growth of their primary exports.

Introduction

1. I am very glad to be asked to submit a paper to this Commission, whose members have distinguished themselves in a wide variety of business, labor and professional activities on the international side of the U.S. economy. I shall not attempt to discuss investment policy, which I understand has already been considered at some length in earlier meetings. Instead I shall concentrate on trade policy, and more particularly on its relation to aid and development in the less developed countries. My remarks will extend to policies not only of the United States but of other countries as well.

A. The Developing Countries' Need for Foreign Exchange

2. We have come to the end of the First U.N. Development Decade (1961-1970),whose target for the developing countries was to achieve an annual rate of economic growth of 5 percent. Although this target has been nearly reached, much of the gain has been eaten away through rapid population increase. Per capita incomes in the developing countries rose only about 2 percent a year, and their position has deteriorated further vis-a-vis the developed nations, where incomes per head rose nearly twice as rapidly.

3. The resolution recently adopted by the United Nations General Assembly calls for a 6 percent growth rate in the developing countries during the Second Development Decade (1971-1980). Although the attainment of this target would represent an acceleration in the economic growth of these countries, it would not be sufficient to reduce income disparities between them and the developed nations. While income per head would rise from about $200 in 1968 to $300 in 1980 in the former group of countries, OECD projections envisage per capita incomes to increase from $3000 to $4500 in the latter. Even if due allowance is made for the inadequacy of GNP comparisons on the basis of current exchange rates, the disparities remain very large.

4. However modest the 6 percent growth target may appear in comparison to the prospects for the developed nations, its attainment will require great efforts. Developing countries will have to improve their economic policies to increase savings and exports and to ensure the better utilization of resources. In turn, the policies of the advanced nations will have to be reshaped to help the developing countries obtain the foreign exchange necessary for their economic growth.

5. Developing countries need foreign exchange to finance their imports, to service their debt, to transfer income on private investment, and to pay for transportation expenses and

other service items. Among these needs, imports are by far the most important, amounting to some $50 billion in 1970. The General Assembly Resolution indicates the need for imports to rise more rapidly than national income in the developing world, and country projections prepared by the World Bank tend to confirm this view.

6. The developing countries need to import raw materials and intermediate products as well as parts and components in order to utilize in full their growing industrial capacity; they need fertilizers, seeds, and tractors to transform traditional low-productivity agriculture; and they need imported machinery and equipment to carry out the investment necessary for their economic growth. Indeed, the projected acceleration of economic growth in the developing countries requires investment -- and hence the imports of machinery and equipment -- to grow more rapidly than national income. This explains why the General Assembly Resolution calls for an annual increase of nearly 7 percent in the imports of the developing countries during the seventies.

7. What would happen if the foreign exchange necessary for this expansion of essential imports were not forthcoming? It would mean delays in improving nutritional standards[a/] and smaller resources available for education[b/] and health[c/]. Instead of reducing the substantial unemployment that now exists, it would mean increases in the number of the unemployed.[d/] More generally, it would mean slower growth and disappointed expectations in the developing countries, increased social tension, and possibly new trouble spots on the world map.

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a/ The FAO estimates that at least a third to a half of the world's people suffer from hunger or nutritional deprivation. The average person in a high-standard area consumes four pounds of food a day as compared with an average pound and a quarter in a low-standard area.

b/ There are 100 million more illiterates in LDCs today than there were 20 years ago, bringing the total number to some 800 million.

c/ Infant deaths per 1000 live births are four times as high in the developing countries as in the developed countries (110 compared with 27). And a man in the West can expect to live 40% longer than the average man in the developing countries and twice as long as the average man in some of the African countries.

d/ The equivalent of approximately 20% of the entire male labor force in LDCs is unemployed, and in many areas the urban population is growing twice as fast as the number of urban jobs.

8. If developing countries do not have the foreign exchange necessary for their economic growth, they will attempt to replace imports by high-cost domestic production, with adverse consequences for both developed and developing nations. Industrialized countries would be adversely affected, since they would experience a slow-down in their exports of machinery and equipment and intermediate goods in which they have a comparative advantage. But even greater harm would be done to the developing countries, since inefficient, small-scale industries oriented towards domestic markets would be established at great cost in investment resources.

9. The developing countries are limited in replacing foreign products at a reasonable cost by their small domestic markets and the scarcity of technical and managerial skills. Three-quarters of these countries have a gross domestic product of less than $3 billion each; such small markets provide few possibilities for replacing the imports of intermediate products and capital goods necessary for economic growth. Also, in importing these commodities, the developing countries can utilize the fruits of the developed countries' skills and technology, which they themselves lack.

10. The adverse effects of continuing import substitution are well illustrated by the postwar experience of several Latin American and Asian countries. These countries aimed at rapid growth by fostering industries producing for domestic use behind high protective barriers. They were reasonably successful at an early stage, when imports of non-durable consumer goods and some of their inputs were replaced by local products. These commodities provide possibilities for efficient import substitution in the developing countries, since they employ chiefly unskilled and semi-skilled labor, do not require sophisticated technology, and need few inputs from ancillary industry. Nor does the limited size of domestic markets constitute an important handicap for the development of these industries, since the efficient scale of operations is relatively low.

11. The expansion of non-durable consumer goods production necessarily slows down, however, after imports have been replaced, since domestic production is then limited to the growth of home demand. At the same time, developing countries encounter difficulties in extending import-substitution to other intermediate products, capital goods and consumer durables. These commodities have generally higher technological and skill requirements, require the availability of materials, parts and components from other industries, and need large-scale production for efficient operations. The production of most of these commodities is also rela-

tively capital-intensive, thereby reducing the rate of labor absorption and lowering the rate of economic growth that can be attained by the country's investment effort.

12. Continuing import substitution behind high protective barriers often gives rise to monopolistic practices and is not conducive to improvements in products and in production methods. In fact, countries following such policies have increasingly fallen behind the developed nations in applying modern technology and have built up an industrial structure based on small-scale production with inadequate specialization and outdated machinery. Unless they are drastically changed, such policies prove to be self-defeating, since rates of economic growth will eventually slow down.

13. These considerations help to explain why, in countries such as Argentina, Turkey and India, economic growth slowed down after the first "easy" stage of import substitution was completed. The recognition of this fact has recently led the governments of these countries to reconsider their economic policies. This is the case even in a country as large and well endowed as Brazil; although it did succeed in reducing the share of imports in national income to 6 percent, Brazil is now trying to accelerate the growth of exports so as to be able to increase imports.

14. However, once an inefficient industrial structure is established, vested interests are created and reorientation of investment and production becomes increasingly difficult. Firms are opposed to changes in a status quo which ensures comfortable profits, while labor unions fear the dislocation which a revamping of the industrial structure would entail. It is of special importance, therefore, that countries at earlier stages of industrial development, such as Iran and Peru, do not follow the example of some of the more industrialized countries in adopting a policy of import substitution with little regard to cost.

15. To avoid the adoption of policies that will eventually prove to be self-defeating, the developing countries need foreign exchange. As I noted earlier, they need it not only for merchandise imports but also to service their debt, to transfer foreign investment income, and to pay for transportation and other services. Among these items, debt servicing and the transfer of foreign investment income deserve special mention.

16. Since foreign aid in the form of grants is no longer rising, developing countries have had to borrow an increasing proportion of financial requirements. The result has been a rapid rise in obligations for the servicing of this debt in the form of amortization and interest. In fact, several countries have had to reschedule or refinance their debt. During the 1960's eight developing countries negotiated 15 multilateral debt relief operations involving about $3 billion of disbursed and outstanding debt. Rescheduled debt generally is payable at conventional interest rates; only the reschedulings for India and Indonesia have been at substantially concessional rates. Thus, most rescheduling only postpones debt payments; moreover, other developing countries have increased their debt service obligations at a rapid rate. IBRD projections indicate that these borrowings will lead to an increase in debt service exceeding the rate of increase of national income. In Latin America, for example, Bank projections show debt servicing to increase at an annual rate of 7.5% during the seventies. Payments of private foreign investment income also tend to rise faster than national income in the developing countries. This is because foreign enterprises are in the most rapidly growing sectors.

17. All in all, we can expect the foreign exchange needs of the developing countries to rise faster than their national income. In order to attain a rate of income growth of 6 percent and meet their obligations as debtors, these countries will require foreign exchange availabilities to grow at roughly 7 percent a year.

B. Sources of Foreign Exchange

18. Having noted the need for the rapid growth of the foreign exchange receipts of less developed countries, I will now address myself to the question of how this foreign exchange can be obtained. It comes from three sources: export earnings, foreign aid, and private capital. Private capital, accounting for one-tenth of the total receipts has been discussed by others who appeared before your Commission, and I will not consider it here. My remarks will be concentrated on exports and foreign aid, which amount to about 75 and 15 percent, respectively, of the foreign exchange available to the developing countries.

19. It should be emphasized that these figures are averages, and the relative importance of exports and foreign aid varies greatly from country to country. Aid is of particular importance to the poorer countries, where domestic savings are low and foreign financial assistance is essential to carry out the investments necessary for economic growth. These countries generally receive aid in the form of grants or loans on concessional terms. The loans provided by the International Development Association, affiliated with the World Bank, come into this category.

20. If investments are well conceived and executed, they help bring about increases in per capita incomes and in the proportion of national income devoted to savings. Countries that have increased domestic saving but still need to supplement it from foreign sources generally borrow at or near commercial terms from the World Bank, the governments of developed countries,regional banks and the financial markets.

21. There are however limits to the borrowing capacity of the developing countries. We cannot specify these limits precisely, since they depend on the future export growth of the country as well as its present sources of foreign exchange. Nevertheless, such limits exist and indeed, as I noted earlier, a number of countries have reached them and had to reschedule their debt. There is a danger that other countries will soon reach the feasible limits to their debt servicing capacity, thereby reducing their creditworthiness and creating difficulties for their future economic growth.

22. Not only are there limits to the capacity to service debt, but the supply of funds at reasonable terms is inadequate; in fact, the countries that have had to reschedule their debts incurred much of them in the form of high-interest bearing credits. As the desirable level of such borrowing is limited, developing countries can cover their additional foreign exchange needs in essentially two ways, through aid on softer terms or through exporting.

23. I have repeatedly stressed the need for augmenting foreign aid,and in particular aid on softer terms. This is essential for the developing countries not only to reduce their debt burden but also to supplement their domestic savings. Yet even if the U.N. target for foreign aid, as well as private investment -- 1% of the gross national product of the developed countries -- is met, the major part of the increase in foreign exchange needed by the developing countries will have to be financed from increased export earnings. At prospective levels, concessionary aid must be reserved for the poorer countries that will need some time to develop sufficient exports to cover their import needs.

24. The expansion of exports is therefore vital to all developing countries and especially to countries that have progressed toward self-sustaining growth. There are a few countries -- such as

Israel, Mexico, Taiwan, Yugoslavia -- that have almost reached this point, and others are approaching it. But self-sustaining growth cannot be maintained, let alone reached, if exports do not rise rapidly enough. I will dwell on this question in some detail as it is of major concern to your Commission.

25. You have already been reminded by another witness of the limited potential for expanding exports of primary commodities other than fuels (see Table 1). Countries favored with large reserves of petroleum are of course in a special situation, as fuel exports are growing at an average rate of 10 percent a year. They are, however, few in number. While one-third of the export earnings of the developing countries come from fuel exports, 80% of these earnings accrue to six countries, sustaining a small share of the world's population. They do not therefore contribute significantly to the relief of the foreign exchange problems of other LDCs, which are the subject of the remainder of this paper.

26. The other developing countries, accounting for the bulk of the world's population, obtain about two-thirds of their export earnings from other primary commodities and one-third from manufactures. Most of the primary exports are foodstuffs and agricultural raw materials, which have an average growth rate lower than other categories. Their sluggishness is the result of slow expansion of consumption in the developed countries, aggravated by protectionism especially in regard to foodstuffs.

27. Non-fuel mineral and metal exports are growing somewhat faster than agricultural products, but their volume is only sufficient to bring up the average growth of non-fuel primary exports to between 3 and 4%. If the industrialized countries would remove the obstacles to primary imports, this rate of growth could certainly be increased. Even so they would not fully provide the foreign exchange that the developing countries need for rapid economic growth.

28. The best possibilities for long-term expansion of exports by the developing countries lie in the realm of manufactured goods, since it is here that world demand grows most rapidly. (See Tables 2 and 3.) There is a variety of products that these countries can produce at a competitive cost. They generally have either high labor content or utilize domestic materials. The major groups of manufactures especially suited to the developing countries include the following:

(a) Processed primary products, such as vegetable oils, processed foodstuffs, plywood and veneer, pulp and paper products, and metal fabrication. In the case of these products, the transportation cost of weight-losing materials gives the producing countries an advantage vis-a-vis the user markets. These goods presently account for roughly two-fifths of the manufactured exports of the developing countries.

(b) Traditional labor-intensive goods, such as garments, textiles, footwear and simple engineering products. Their low labor costs make the developing countries competitive in these commodities, which account for another two-fifths of their manufactured exports.

(c) Newer labor-intensive industries, including plastic and wooden items, rattan furniture, glassware, pottery and wigs, have made their appearance in recent years. While it is difficult to distinguish them from other categories, they may account for one-tenth of the total.

(d) Electronic and mechanical items: A few developing countries are beginning to export a wide range of more complex products of labor-intensive manufactures, largely parts and components for assembly elsewhere. Exports of radios, other electrical equipment, and machine tools have also been rising. These products may have reached one-tenth of the manufactured exports of developing countries and their share is likely to increase.

29. These products have made it possible for exports of manufactured goods from the developing countries to expand at an annual rate of about 15% during the period 1962-68 (see Table 4). Nevertheless the share of the manufactured exports of the developing countries remains in the range of 6% of the manufactured imports of the developed nations and one-third of 1% of GNP (see Table 6). Even with this rapid growth, increases in manufactured exports have not been sufficient to offset the slow growth of primary exports and thus to avoid a continuing decline in the share of the developing countries in the total imports of the developed nations.

C. Policies in Developing Countries

30. I have noted that in the postwar period several important developing countries followed a policy of import substitution with little regard to cost. Such a policy was inimical to the exports of manufactured goods, since these bore the burden of overvalued exchange rates and high tariffs on inputs, whereas protection offered substantial profit opportunities to production for domestic markets. Yet in the longer run export-orientation is essential for continued economic growth. An export-oriented policy permits specialization according to comparative advantage. It allows developing countries to continue to import commodities that are more efficiently produced abroad, while exporting manufactured goods that utilize their abundant factor, labor, as well as their domestic raw materials. In exporting manufactured goods, developing countries can also employ large-scale production methods and participate in the international division of the production process by producing parts and components for assembly elsewhere.

31. Hong Kong, Taiwan, Korea and Singapore have reached rapid rates of economic growth by expanding the exports of a variety of manufactured products that utilize their educated manpower but have low capital requirements. Exports of manufactured goods have also contributed to the economic growth of Israel, Mexico, Yugoslavia, and several smaller countries have been successful in carrying out export-oriented policies. Table 5 gives data on the countries which account for the bulk of the expansion of exports of manufactured goods from developing areas.

32. While some of the countries following a policy of import substitution have made the first steps in changing this policy, they are still basically oriented towards highly protected domestic markets. These countries would have to take various measures in order to increase the export orientation of their economies. First of all, there is need to offset actual cost disabilities of exports due to overvalued exchange rates and high domestic tariffs and taxes on the inputs used in export production. Second, there is need to apply measures of export promotion in the form of informational and marketing services. Third, there is need for sounder financial policies in general and for export credits in particular. Finally, measures should be taken to encourage economic integration in developing areas.

33. The first step toward export promotion for many countries is to remove the actual cost disabilities to exports. The high cost of heavily protected inputs can be offset by tariff duty drawbacks, temporary admission systems, or the establishment of export zones. Also, in conformity with GATT regulations, certain provisions can be introduced to offset some indirect taxes. Cumbersome import, and in some cases export, procedures may also require revisions.

34. Export promotion can also play an important role since firms in developing countries often do not have the facilities to export manufactured goods. These firms need help in the form of information on sales possibilities abroad and in many cases marketing assistance. There is also need for export credit and insurance schemes to match the terms offered by the developed countries. The experience of some of the developing countries which have been most successful in exporting manufactured products suggests that such export promotion measures can be the least costly and most successful instrument of government policy in turning manufacturing towards exports.

35. The experience of countries which have succeeded in increasing exports also suggests that export orientation is not a matter of trade policies alone, but requires a favorable conjunction of all the principal economic policies. Monetary stability; realistic exchange rates; credit policies which do not discriminate in favor of import replacement or capital intensive industries; a vigorous, competitive, banking system; these are the cornerstones of such policies. To the extent that inflationary pressures persist, some countries have found it advisable to tie currency devaluation to domestic price rises in fairly frequent but small steps.

36. Exports of manufactured products need not all be aimed at developed country markets. The success of the Central American Common Market indicates the possibilities of expanding the trade of manufactured products among developing countries. Such trade has also expanded in the framework of the Latin American Free Trade Association although tariff reductions here proceeded at a slower rate than originally planned. Even so, trade among the developing countries in manufactures is not growing as fast as in the rest of the world. Further institutional improvements could improve this trend.

D. What Developed Countries Can Do

37. While the application of the policies described above is highly desirable, they will not suffice unless markets are provided in the developed countries. As shown in Table 4, these countries take 60% of the manufactured exports of the developing areas. The measures applied by them will therefore profoundly affect the future course of LDC exports. There have been several instances when manufactured exports from the developing countries had increased, only to be met by restrictions in the developed nations. Examples are the International Cotton Textiles Agreement, which has limited the rate of growth of cotton textiles exports, and various informal arrangements aimed at restricting trade in particular commodities, including plastics, porcelain, cutlery, and electronic components.

38. More generally, imports of manufactured goods from developing countries are subject to tariff as well as to non-tariff barriers. Tariffs are higher on manufactures imported from developing countries as compared to developed countries. According to a study prepared at the World Bank, tariffs on the two groups of imports average, respectively, 7 and 12 percent in the United States, 9 and 14 percent in the United Kingdom, and 7 and 9 percent in the European Community.

39. Tariffs also rise with the degree of fabrication. Thus in the European Community, cocoa beans imported from non-associated countries bear a 3 percent duty, while the tariff on cocoa butter is 18 percent. In the United States, hides and skins enter duty free but tariffs of 4 to 5 percent apply on leather and 8 to 10 percent on shoes.

40. It appears then that tariffs in the developed countries discriminate against the imports of manufactured goods from developing areas. Similar considerations apply to non-tariff barriers. In the United States, for example, 19 percent of total manufactured imports are subject to non-tariff barriers, compared to 24 percent of manufactures imported from developing countries; the corresponding ratios for the European Community are 8 and 14 percent. Even these percentages do not adequately represent the differential burden imposed on developing country exporters, since they are less able to cope with the competition involved in securing import permits and keeping abreast of changes in complex regulations.

41. It is also in the interest of the advanced countries to allow the developing countries to increase their exports, since they will then be able to procure larger amounts of machinery, consumer durables and other exports from the advanced countries. The gain from the expansion of trade will more than offset the costs involved in the displacement of labor and capital from industries where their productivity is relatively low. However, the short-run adjustment costs can be particularly severe in some of the traditional labor-intensive industries, such as textiles, where the number of unemployed could be considerable and the costs of retraining and relocation substantial. In these sectors re-adjustment assistance and a phased reduction of tariff and non-tariff barriers are badly needed.

42. Readjustment Assistance: I understand that your Commission has already devoted one full meeting to the subject of readjustment assistance. I will therefore simply emphasize that effective programs of this type are essential prerequisites for most of the measures of trade liberalization discussed below and that several developed countries are as yet far from mounting such programs.

43. Tariff Preferences: An important element of the U.N. plan for the 1970s is the proposal that the more developed countries grant preferential treatment to the exports of developing countries. Along with representatives of 17 other industrialized countries, representatives of the U.S. Government have undertaken to endeavor to implement the proposal. It would involve a zero tariff on imports of manufactures and a few primary commodities from developing countries for a 10-year period. Textiles, shoes and petroleum products are excluded from the proposal in order to minimize social costs in these industries. Apart from these items, the traditional discrimination against manufactured imports in favor of raw material imports would be eliminated as long as the proposal was in effect. If all 18 of the industrialized countries which have tentatively approved the U.N. proposal carry out their commitment, these exports will rise by $1 billion a year over the levels that would otherwise be reached (according to an estimate by the U.S. State Department). The U.S. share of this increase is estimated at $400 million. Since the U.S. is the largest single importer of manufactures from the LDCs, its policies are likely to influence those of other countries, and the restrictive or expansionary effects of U.S. trade policies on the LDCs are likely to be multiplied.

44. Non-Tariff Barriers: Non-tariff barriers to trade have become more prevalent throughout the developed countries in recent years. Restrictions on market access are to be found in a variety of administrative and fiscal measures, such as quotas, subsidies, valuation techniques, and preferential buying arrangements under government procurement. They are often related to the promotion of social and economic goals, and the obstacles to moderating them must be recognized. For example, traditional markets for agricultural exports in the European Community are being closed off in order to protect European farmers. Similar restrictions are in effect in the United States, and proposals have been made to extend quota protection to non-cotton textiles, shoes, and a variety of other products. Most of the products in question are actual or potential exports of the developing countries, and they bear much of the burden of the restrictions. Exploratory discussions on the non-tariff barriers, now under way, indicate that negotiations could be lengthy. Their success is nevertheless of the same order of importance as tariff reduction.

45. A Target for Trade Expansion: Because of the great variety of barriers to trade, it would be desirable for the developed as well as developing countries to adopt some quantitative targets for the increase in LDC exports that is needed to sustain their future growth. Such targets have been found useful in the field of public and private capital flows, where the U.N. objective of 1% of GNP has gained wide acceptance among the advanced countries.

Since manufactured goods offer the greatest scope for policy action, I will limit myself to this part of the problem, while recognizing the need for also reducing barriers to trade in foodstuffs and other primary products.

46. At present, the manufactured imports of the advanced countries from the less developed countries* are shown in Table 6 to amount to about one-third of 1% of their GNP, equivalent to about 1% of their consumption of manufactured goods. To allow the developing countries to earn the foreign exchange needed for their continued growth, advanced countries should adopt policies that would permit their manufactured imports from LDCs to continue to grow at the rates of 15% that have been achieved in the recent past (see Table 2). If continued to 1980, this rate of expansion would raise these manufactured imports to the vicinity of 1% of the GNP of the advanced countries, which would offset the declining share of primary exports apart from fuels. I suggest that this increased absorption of manufactured products provides a valid measure of the rate at which the developed countries could adapt their productive structures through the combination of measures suggested in the preceding paragraphs. Although the rate of growth seems high, world rates of growth in manufactured exports have themselves been exceeding 10% per year; as a result there would be little increase in the LDC share of total manufactured imports of 5.5%, shown in Table 2.

47. While 1% of GNP is a reasonable target for manufactured imports by the developed countries as a whole, it should be qualified to allow for the fact that larger countries import a smaller proportion of their total requirements than do smaller ones. Large countries such as the U.S. and Japan might reasonably aim at .75% of GNP, while a comparable effort by small countries might bring them to 1.5%. Changes of such small magnitude spread over a decade need not lead to the unemployment and disruption of the affected sectors that is feared by the opponents of expanded trade. On the contrary, an announced policy of this sort would permit both advanced and developing countries to determine industrial policy on a basis which is advantageous to both groups of countries.

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* Excluding petroleum products and non-ferrous metals.

Index of Tables

Table 1 Trends in world exports of manufactures, fuels and other primary commodities (1953-1969)

Table 2 Imports of selected groups of manufactures by twenty-one developed countries from LDCs and the world, 1962, 1968 and 1969

Table 3 Imports of selected groups of manufactures by the United States of America from LDCs and the world, 1962, 1968 and 1969

Table 4 Exports of manufactures from the world and from LDCs, 1962 1967 and 1968

Table 5 Leading LDC exporters of manufactures to the developed countries (1962-69)

Table 6 Comparative measures of the imports of manufactures by developed countries from LDCs, 1968

NOTE: Most of the data in the attached tables is taken from publications and other papers of the United Nations, its agencies and committees. The detailed breakdowns given in Tables 2, 3 and 5 use a broader definition of manufactures that includes processed foods, drink and tobacco and other minor items. Tables 1 and 4 use a narrower definition based on SITC categories 5 to 8, which omits these products. Table 6 follows definition close to that of Tables 2, 3 and 5.

Table 2

Imports of selected groups of manufactures /a by twenty-one developed countries from LDC and the world (W), 1962, 1968 and 1969

Product Group	Imports from LDC ($ million)			Average annual percentage increase		LDCs percentage share	
	1962	1968	1969	1962 W	1969 LDC	1962	1969
Food products	418.3	761.6	826.5	7.2	10.2	16.3	19.9
Drink and tobacco products	306.9	130.0	173.5	6.7	- 7.9	27.5	9.9
Wood products and furniture	270.0	565.3	696.6	10.8	14.5	12.0	15.1
Rubber products	6.0	16.8	26.0	13.0	23.3	0.9	1.7
Leather and footwear	96.2	259.1	333.5	15.3	19.4	12.2	15.6
Textiles	561.2	910.5	1028.1	9.6	9.1	13.3	12.9
Clothing	242.6	795.8	1086.5	18.5	23.9	19.1	26.0
Chemicals	231.4	366.8	415.2	13.8	8.7	4.7	3.4
Pulp, paper and board	16.3	32.1	42.2	9.0	14.5	0.5	0.7
Non-metallic mineral products	24.8	49.1	60.6	11.4	13.6	2.2	2.6
Iron and steel	49.9	174.5	198.5	11.6	21.8	1.3	2.4
Worked non-ferrous metals	29.3	143.5	173.1	15.7	28.9	3.1	6.6
Engineering and metal products	104.5	480.1	734.4	14.8	32.1	0.5	1.4
Miscellaneous light manufactures	124.9	490.9	651.4	16.1	26.6	5.2	9.6
Total	2482.3	5176.1	6446.1	13.1	14.6	5.0	5.5

/a Excluding petroleum products and unworked non-ferrous metals.

Source: Special tabulations by the United Nations Statistical Office, prepared for UNCTAD.

Table 3

Imports of selected groups of manufactures /a by the United States of America from LDC and the world(W), 1962, 1968 and 1969

Product Group	Imports from LDC (million dollars) 1962	1968	1969	Annual Average percentage increase 1962 - 1969 W	LDC	LDCs percentage share 1962	1969
Food products	106.0	245.6	260.0	9.0	13.7	24.0	32.2
Drink and tobacco products	4.4	9.2	10.7	10.8	13.5	1.4	1.6
Wood products and furniture	89.8	234.8	298.7	12.1	18.7	15.5	23.2
Rubber products	1.1	5.6	10.6	16.7	38.2	1.7	5.5
Leather and footwear	18.6	71.1	84.3	17.0	24.0	9.4	13.8
Textiles	223.6	342.9	391.1	6.5	8.3	32.3	36.3
Clothing	112.8	403.2	545.7	17.2	25.3	31.0	49.4
Chemicals	99.0	132.5	129.2	12.2	3.9	19.9	11.6
Pulp, paper and board	1.3	4.7	6.5	5.3	26.0	0.1	0.4
Non-metallic mineral products	15.5	29.8	36.2	10.5	12.9	7.2	8.2
Iron and steel	9.8	60.1	58.6	19.7	29.1	1.9	3.2
Worked non-ferrous metals	4.7	44.4	18.4	8.9	21.5	2.1	4.6
Engineering and metal products	26.9	291.5	475.8	26.4	50.6	1.3	4.3
Miscellaneous light manufactures	61.4	316.3	413.9	18.1	31.3	11.0	23.1
Total	774.9	2191.7	2739.7	17.0	19.8	9.8	11.4

/a Excluding petroleum products and unworked non-ferrous metals.

Source: Special tabulations by the United Nations Statistical Office, prepared for UNCTAD.

Table 4

Exports of manufactures /a from the world and from LDC 1962, 1967 and 1968

		Destinations			
		World	DMEC	LDC	SCEEA
Exports from ($ million)					
World:	1962	75,110	44,008	19,272	9,593
	1967	123,160	79,392	28,148	14,971
	1968	141,200	92,084	31,976	16,485
LDC:	1962	3,204	1,680	1,324	175
	1967	6,427	3,583	2,167	611
	1968	7,592	4,517	2,428	623
Annual growth rates (per cent)					
World:	1962-1967	10.4	12.5	7.9	9.3
	1967-1968	14.6	16.0	13.6	10.1
LDC:	1962-1967	15.0	16.4	10.3	28.4
	1967-1968	18.1	26.1	12.0	2.0
LDC share (per cent)					
	1962	4.3	3.8	6.9	1.8
	1967	5.2	4.5	7.7	4.1
	1968	5.4	4.9	7.6	3.8

Notes: DMEC - Developed Market Economies
LDC - Less Developed Countries
SCEEA - Socialist Countries of Eastern Europe and Asia

/a Excluding petroleum products, non-ferrous metals and processed foods, drink and tobacco.

Source: UNCTAD estimates derived from United Nations, Monthly Bulletin of Statistics and Commodity Trade Statistics, Series D.

Table 5

Leading LDC exporters of manufactures to the developed countries (1962 - 1969)

Exporting country or territory	Value of exports (million dollars)			Percentage of total	Annual average per cent increase
	1962	1968	1969	1969	1962-1969
Hong Kong	412.9	1,168.2	1,484.3	23.0	20.1
China (Taiwan)	64.6	399.3	570.0	8.8	36.5
India	363.0	500.0	546.8	8.5	6.1
Yugoslavia	183.0	383.6	513.1	8.0	15.9
Mexico	107.1	276.3	379.5	5.8	19.8
Republic of Korea	6.6	246.1	365.3	5.7	79.1
Brazil	85.5	212.3	244.2	3.8	16.2
Argentina	95.6	210.0	207.5	3.2	11.7
Pakistan	44.4	156.0	190.4	3.0	23.7
Israel	52.0	132.5	157.8	2.4	17.2
Philippines	70.0	129.9	137.7	2.1	10.2
Iran	74.2	113.9	132.9	2.1	8.7
Malaysia	40.7	102.7	129.8	2.0	18.0
Nigeria	272.5	83.6	115.9	1.7	- 11.4
Ghana	31.9	104.8	113.0	1.8	19.8
Morocco	62.0	60.0	70.0	1.1	1.7
Singapore	12.4	42.9	69.7	1.1	28.0
Ivory Coast	7.9	53.5	60.6	0.9	33.5
Bermuda	6.1	40.2	52.1	0.8	35.9
Cameroon	27.4	38.2	47.8	0.7	8.3
New Caledonia	6.6	40.3	48.4	0.7	32.4
Algeria	11.8	27.8	37.8	0.6	18.1
Trinidad and Tobago	6.8	38.5	36.7	0.6	27.3
Bahamas	0.9	18.4	36.2	0.6	69.6
Ryu-kyu Islands	18.8	27.4	34.8	0.5	9.2
United Arab Republic	23.7	25.9	32.8	0.5	4.8
Thailand	35.3	32.5	30.3	0.5	-2.2
Portuguese Timor and Macau	2.2	18.9	30.1	0.5	45.3
Jamaica	20.3	27.9	29.8	0.5	5.7
Surinam	3.8	19.8	29.1	0.4	33.8
Tunisia	31.4	21.1	28.4	0.4	-1.4
Colombia	7.5	21.1	26.3	0.4	19.6
Chile	12.9	20.1	22.8	0.4	8.4
Indonesia	5.8	11.6	22.5	0.3	21.3
Uruguay	14.8	18.7	20.3	0.3	4.5
Netherlands Antilles	18.4	11.0	18.9	0.3	0.4
Paraguay	14.4	18.1	18.3	0.3	3.5
Kenya	12.6	17.7	17.7	0.3	5.2
Honduras	5.3	12.2	14.2	0.2	15.1
Haiti	6.2	11.6	13.2	0.2	11.4
United Republic of Tanzania	9.0	12.7	12.9	0.2	5.4
Burma	11.6	11.5	12.0	0.2	0.5
Madagascar	7.5	10.9	11.9	0.2	6.8
Lebanon	3.7	8.1	11.2	0.2	17.1
Congo (Dem. Rep. of)	9.8	10.2	10.5	0.1	1.3
Martinique	8.0	8.3	10.5	0.2	4.0
Cuba	6.3	11.4	10.4	0.2	7.5
Senegal	5.6	9.5	10.2	0.2	9.0
Mozambique	4.1	7.1	10.0	0.2	13.9
Angola	2.3	8.8	10.0	0.2	23.5
Gabon	6.6	11.2	9.5	0.1	6.2
Total above	2,359.3	4,975.6	6,256.1	97.0	14.7
Other LDCs	155.6	211.4	191.7	3.0	2.4
Total LDCs	2,514.9	5,187.0	6,447.6	100.0	14.4

Source: Special tabulations by the United Nations Statistical Office.

Table 6

Comparative measures of the imports of manufactures /a by developed countries from LDCs, 1968

	Population million	GNP billion US $	GNP per Head US $	Total Imports million US $	Imports from LDCs million US $	Total Imports as percent of GNP	Imports from LDCs as percent of GNP
Total 18 Developed Countries	622.7	1,505.8	2,418	95,081	5,425	6.3	0.36
EEC total	185.2	328.4	1,773	34,773	1,343	10.6	0.41
Belgium-Luxembourg	9.9	18.4	1,822	4,728	56	26.1	0.31
France	49.2	106.3	2,130	8,415	348	7.9	0.33
Germany	60.9	118.5	1,970	10,657	604	9.0	0.51
Italy	52.8	64.9	1,230	4,754	180	7.3	0.28
Netherlands	12.7	20.6	1,620	6,208	155	30.1	0.75
EFTA	99.6	174.9	1,756	23,889	1,236	13.7	0.71
Austria	7.4	9.7	1,320	1,835	41	18.9	0.42
Denmark	4.9	10.1	2,070	2,245	45	22.2	0.44
Finland	4.7	8.1	1,720	1,077	10	13.3	0.12
Norway	3.8	7.6	2,000	1,622	66	21.3	0.87
Portugal	9.5	4.4	460	692	10	15.7	0.23
Sweden	7.9	20.7	2,620	3,521	107	17.0	0.52
Switzerland	6.1	15.3	2,490	3,368	81	22.0	0.53
United Kingdom	55.3	99.0	1,790	9,524	875	9.6	0.88
Australia	12.0	24.9	2,070	2,926	129	11.8	0.51
Canada	20.8	51.1	2,460	8,717	185	17.1	0.36
Japan	101.1	120.3	1,190	3,303	267	2.7	0.22
New Zealand	2.8	5.6	2,000	699	30	12.5	0.54
United States	201.2	800.6	3,980	20,776	2,236	2.6	0.28

/a Excluding petroleum and unworked non-ferrous metals.

Source: World Bank Atlas, IBRD, 1970 and United Nations: Trade in Manufacturing of Developing Countries, 1969 Review, TD/C.2/90/Rev.1.

813/4/4

COMMISSION ON INTERNATIONAL TRADE AND INVESTMENT POLICY
1900 L STREET, N.W.
WASHINGTON, D. C. 20036

January 7, 1971

IBRD / IDA
WBG
ARCHIVES

Honorable Robert S. McNamara
President
International Bank for
Reconstruction and Development
1818 H Street, N. W.
Washington, D. C. 20433

Dear Mr. McNamara:

I am delighted to hear from Dr. Isaiah Frank that you will be able to be with us on the morning of February 25 at the Commission's ninth session. The meeting will be held at our Washington offices, suite 712, 1900 L Street, N. W.

As you know, we will be devoting that morning to an examination of U. S. trade and investment relations with the developing countries. The Commission will be particularly interested in considering what policies, both national and international, are most appropriate for the long term. We greatly appreciate your willingness to be with us and to present a paper on this general topic.

The morning session will begin at 8:30 A. M. and break at approximately 12:15. The first two presentations will be made by Dr. Raul Prebisch and Professor Willard Cochrane, and will be followed by a general discussion and a 10:00 A. M. coffee break.

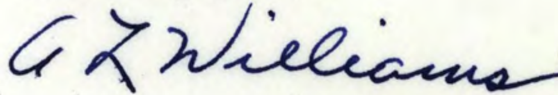
We have scheduled your presentation from 10:15 to 11:15. During that hour we look forward to your opening remarks and the exchange of views which will follow.

At 11:15 we plan to hear from Mr. Henry Brodie of the State Department regarding present U. S. policy views. Until quite recently Mr. Brodie has dealt with the issues being examined on February 25 as the U. S. Permanent Representative to the GATT and UNCTAD in Geneva. Following his short presentation we will complete the morning session with a question and discussion period terminating at 12:15.

I sincerely hope that you will be able to spend the entire morning with the Commission and for that matter join us in a box lunch which will be served at 12:15. Should this prove impossible, we look forward to greeting you at 10:15.

Let me express in advance my appreciation of your willingness to spend the time with us and to share with the Commission your views on a most important aspect of its work.

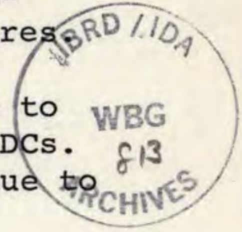
Sincerely yours,



A. L. Williams
Chairman

(1) The very large foreign exchange needs of developing countries to press forward with industrialization and to meet debt service burdens.

  (a) Industrialization and modernization of traditional agriculture require substantial foreign exchange expenditures.



  (b) Debt service itself appropriates up to ____% of export earnings for some LDCs. The debt service burden will continue to mount.

(2) The new recognition in LDCs that autarkic development has serious shortcomings, and that integration into the world economy through competitive exporting brings substantial advantages. A number of successful developing countries are already in a position to undertake competitive exporting; others will follow.

(3) Aid has stagnated; the U.S. now ranks 16th of 16 DAC countries in resource flows to LDCs. In any event, such flows account for less than 25% of LDC foreign exchange earnings from exports.

(4) Points 1, 2 and 3 make it imperative that market access and export opportunities be provided to LDCs.

(5) Substantial barriers to the U.S. market now exist -- sugar, meat, petroleum, labor intensive manufactures, etc. Preferences, if they are to be meaningful, will hurt.

(6) Certainty in markets is equal in importance to preferential treatment. The granting of preferences which are subsequently contravened through escape clause action and through the frequent triggering of quotas can harm, rather than help, the LDCs.

(7) The issues of aid, investment and trade are closely linked. If adequate market access for LDC exports is not provided, the ability of LDCs to service

present debt (public and private) is impaired, and the ability of multinational lending organizations to accelerate their loan programs is placed in jeopardy. Additionally, massive re-negotiations of debts will affect private capital flows to the LDCs.

(8) The quality of our commitment to LDCs rests in large measure on the quality of our trade policies. They are keenly aware of this. A retreat toward protectionism or indeed failure to press toward more liberal trade policy toward LDCs will be immediately and correctly viewed as failure to honor our commitments.

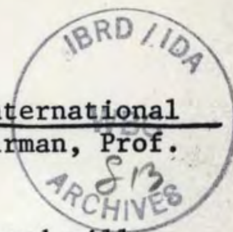
(9) The Commission is considering all aspects of our international economic relations. Consequently, the question of international liquidity and the international adjustment mechanism have arisen. The IBRD may wish to discuss the links between SDR creation, aid and trade.

NO

Balassa / Hulley

A.M. Kamarck
813/4/2

EXCERPTS FROM WHITE HOUSE PRESS RELEASE OF MAY 21, 1970



The President announced the formation of a Commission on International Trade and Investment Policy with Mr. Albert L. Williams as Chairman, Prof. I. Frank as Executive Director.

The Committee will hold its first meeting on May 27, 1970, and will make a report to the President in about a year.

The Commission will make recommendations for U.S. foreign trade and investment policies for the 1970's. It will study principal problems faced by the U.S. in this field, assess present U.S. policies and produce a set of recommendations for future policy which will take full account of the great changes that have taken place on the world economic scene since the end of World War II.

Elements to be considered by the Commission are:

1. First objective: rapid shifts in international costs and price relationships which necessitate new and improved adjustment mechanisms.

2. The substantial trade liberalization already accomplished in industrial products while trade liberalization in agricultural products has lagged.

3. The emergence of new preferential groupings including the possible expansion of the European Community, already the world's single most important trading unit.

4. The rapid expansion of the role of the multi-national firm which has greatly increased the mobility of productive resources across national frontiers.

McNamara

5. The world-wide acceptance of the desirability of accelerating the growth of the low income countries and the need to adopt trade policies to help achieve that goal.

VHW

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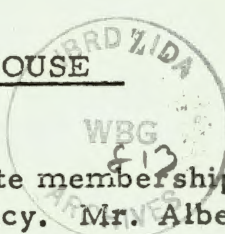
Office of the White House Press Secretary



THE WHITE HOUSE

The President today announced the complete membership of the Commission on International Trade and Investment Policy. Mr. Albert L. Williams, Chairman of the Executive Committee of the Board of Directors of IBM, was appointed Chairman of the Commission on April 7.

The Commission will hold its first meeting on May 27, and will make its report to the President in about a year.

The Commission will make recommendations for U.S. foreign trade and investment policies for the 1970's. It will study the principal problems faced by the United States in this field, assess present U.S. policies, and produce a set of recommendations for future policy which take full account of the great changes that have taken place on the world economic scene since the end of World War II.

Among the elements to be considered by the Commission, in the context of overall U.S. economic policy and foreign policy objectives, are:

-- The rapid shifts in international cost and price relationships, which necessitate new and improved adjustment mechanisms;

-- The substantial trade liberalization already accomplished in industrial products, while trade liberalization in agricultural products has lagged;

-- The emergency of new preferential groupings, including the possible expansion of the European Community, already the world's single most important trading unit;

-- The rapid expansion of the role of the multinational firm, which has greatly increased the mobility of productive resources across national frontiers;

-- The worldwide acceptance of the desirability of accelerating the growth of the low-income countries, and the need to adapt trade policies to help achieve that goal.

The members of the Commission will be:

Chairman:

Albert L. Williams, of Armonk, New York
Former President (retired) International Business Machines, Inc.

Members:

I. W. Abel, of Pittsburgh, Pennsylvania
President, United Steel Workers of America

Richard Allen, of Denver, Colorado
Vice President, International Resources Ltd.

Ernest C. Arbuckle, of Menlo Park, California
Chairman, Wells Fargo Bank

MORE (OVER)

James Binger, of Wayzata, Minnesota
Chairman of the Board, Honeywell, Inc.

Fred J. Borch, of New York, N.Y.
President and Chief Executive Officer, General Electric

Courtney C. Brown, of Scarsdale, New York
Former Dean (retired), Columbia University Business School

Gaylord A. Freeman, of Wayne, Illinois
Chairman of the Board, The First National Bank, Chicago

Robert Galvin, of Barrington, Illinois
Chairman of the Board and Chief Executive Officer, Motorola, Inc.

Richard Gardner, of New York, N.Y.
Professor of Law, Columbia University

Richard Gerstenberg, of Detroit, Michigan
Vice Chairman, General Motors

Antonie T. Knoppers, of Summit, New Jersey
Senior Vice President, Merck and Co., Inc.

Stewart Lee, of Beaver Falls, Pennsylvania
Professor of Economics and Business, Geneva College

Edmund W. Littlefield, of Burlingame, California
President, Utah Construction & Mining Co.

Malcolm P. McLean, of Elizabeth, New Jersey
President, McLean Industries, Inc.

Gordon Metcalf, of Chicago, Illinois
Chairman of the Board Sears Roebuck

Charles F. Myers, Jr., of Greensboro, North Carolina
President, Burlington Industries, Inc.

Max Myers, of Brookings, South Dakota
Director, Institute of Social Sciences for Rural-Urban Research, South Dakota State University

Kenneth D. Naden, of High Point, Maryland
Executive Vice President, National Council of Farmer Cooperatives

Alfred C. Neal, of Harrison, New York
President, Committee for Economic Development

William R. Pearce, of Minneapolis, Minnesota
Vice President, Cargill, Inc.

Dan Throop Smith, of Concord, Massachusetts
Professor of Economics, Harvard University, and Chairman of the Board, Polychemicals, Inc.

Floyd E. Smith, of Washington, D.C.
President, International Association of Machinists and Aerospace Workers

MORE

Charles H. Sommer, of St. Louis, Missouri
Chairman of the Executive Committee, Monsanto Company

John H. Stambaugh, of Nashville, Tennessee
Former Vice Chancellor, Vanderbilt University; Former Senior Associate, George Fry Associates

Leroy Stinebower, of New York, N.Y.
Former Executive Assistant to Chairman of the Board, Standard Oil of New Jersey

George A. Stinson, of Sewickley, Pennsylvania
Chief Executive Officer, National Steel Corporation

The Executive Director of the Commission will be Dr. Isaiah Frank, William L. Clayton Professor of International Economics, School of Advanced International Studies, Johns Hopkins University, and former Deputy Assistant Secretary of State for Economic Affairs.

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