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# A PROPOSAL FOR AN INTERNATIONAL IMPORT ASSURANCE ARRANGEMENT

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The year 1964 will witness two major attacks on world trade problems—the U.N. Conference on Trade and Development and the Kennedy Round of tariff negotiations under G.A.T.T. In both these major international gatherings, intense efforts will be made to alleviate the ill effects of agricultural protectionism and to break down the barriers to trade that hamper the economic development of developing countries,<sup>1</sup> and indeed of all primary exporting countries.

There can be however no certainty of success in the coming attack on commodity trade problems. The Governments of the industrially advanced nations have, as yet, given only the most cautious indications that they may be willing to recognize that the unfettered play of national policies protecting their own agricultural sectors have international repercussions detrimental to all, including themselves, but detrimental most to the nations lower on the scale of development. The possible willingness to accept bindings upon the extent of support accorded to domestic producers and the proposals for bargaining down of non-tariff barriers could conceivably point the way to freer trade, greater access, and enhanced development and ultimately to a more rational use of the world's resources. Nevertheless, it would be unrealistic to ignore the implications of the economic and political difficulties that the industrialised countries encounter in any efforts to liberalise their agricultural protection and support systems. Additional means may be necessary to provide a floor to the efforts to accord expanded trade opportunities to the developing countries, and thereby provide them through "Trade and Aid" (but trade rather than aid) with some assurance that their development plans will not be frustrated through adverse trends or fluctuations in their foreign exchange receipts.

Before examining one possibility for such an assured floor mechanism, consider for a moment the Utopian possibility of having achieved the complete elimination of tariff and non-tariff barriers to trade. This in itself, while removing the cause of some of the most difficult commodity problems, would not by any means solve the problem of the economic development of under-developed countries. In fact, under a free trade situation it is likely that the most developed nations could benefit to the greatest extent, since they would be in the best position both financially and institutionally to make the resources transfers that would be needed to adjust to the new situation. Their industries would offer alternative employment to any who wished or could be encouraged to leave agriculture, while their well developed extension systems, rural credit systems and cash economies would facilitate the application of

<sup>1</sup> In this paper the terms "developing", "less developed" and "under-developed" are used synonymously to describe countries that have not yet reached the stage of self-sustaining growth. The terminology of country groupings forms an interesting exercise in semantics.

capital to agriculture and the implementation of technological advancement.

Faced then with the possibility that the barriers to trade in primary commodities may not be quickly and significantly reduced, and that even if they were, it would not necessarily result in the developing countries being able to overtake the more advanced nations, the question can be raised as to whether there may not be some indirect method of assuring to the developing countries a flow of commodity trade that would, if achieved, provide them most readily with additional foreign exchange required for their overall developmental needs. If these foreign exchange needs are to met through increased trading opportunities to a greater extent than in the past, then it would appear to require the developed nations to accept a higher outlay on imports, especially commodity imports, from the developing group, irrespective of whether this additional outlay comes about through higher prices or through additional volume of imports or both. Such increased expenditure on imports would not lead to an overall balance of payments problem since in a multilateral system, the developing countries can be expected to spend immediately any increase in their foreign exchange earnings for the purpose of purchasing capital goods and developmental requirements, with the result that the flow of both commodity trade and trade in industrial products would expand.<sup>2</sup>

The Centrally Planned Economies would have little difficulty in increasing commodity imports from the developing regions of the world if they so desired. It would require some, not particularly great, modifications of their central plans and consequential rearrangement of their foreign exchange allotments.

The developed free enterprise countries on the other hand are not in a position to ensure that greater quantities of imports are made from developing countries or that higher prices are paid for these imports unless they impose a system of import licensing or the like. But, this is the very situation that G.A.T.T. and the developed countries themselves are endeavouring to remove. Although the Governments of the industrialised free-world countries cannot be expected to provide firm and assured markets for greater quantities or higher prices for the exports into their markets of each commodity from each under-developed country, the advanced countries could individually and collectively undertake that their total purchases over a range of commodities of interest in the export trade of the developing group would increase each year by not less than some reasonable set percentage.

#### *Proposal:*

Essentially the problem is to devise an acceptable means of providing increased trading opportunities or the equivalent of increased trading opportunities to the developing nations.

The means proposed is an International Import Assurance Arrangement, which might operate as follows:—

1. *A list of commodity items of importance in the export trade of developing nations could be negotiated.* The list could cover all visible exports. Or it could be more limited and comprise, for instance, tropical

<sup>2</sup> The balance of payments of individual industrialised countries would be affected, some favourably, some unfavourably.

products, minerals (possibly not petroleum<sup>3</sup>), certain raw materials and also those semi-manufactures and simple manufactures commonly produced by nations in the early stages of industrialisation and economic development.

2. *With some acceptable base period, adjusted by negotiation if necessary, the average annual import value of the items in the agreed list taken together would be determined for each developed country individually. Only exports from the developing group of countries for these products would be taken into account. The total figure for the imports of these items by any developed country may be termed its "aggregate list value".*<sup>4</sup>

3. *Assurance: Every developed country would undertake to increase each year by some reasonable percentage, the "aggregate list value" of its imports.*

Note that the assurance applies to the *aggregate value* (of items on the agreed list) that the advanced country imports from the developing countries *as a group*. No assurance would be given to any individual developing country. Similarly, it is to the aggregate of listed items that the import assurance would apply, not to any particular item on the list.

The target percentage figure would be uniform among all the countries of the developed group. A moderate percentage only is contemplated for the annual increase. It would need to be, at least, something rather more than the average annual increase in population of the developing countries taken as a whole (2.4 per cent per annum).<sup>5</sup> Even though moderate, its cumulative effect would be quite considerable and the assurance of a moderate *steady* expansion in the export earnings of the under-developed group would encourage them in their developmental planning.

4. Since non-communist developed countries do not wish, as a rule, to engage in State trading, a means must be found to enable them to meet the obligation suggested above. This could be done by means of *transfer payments*. In other words, if in some year a non-communist country did not import freely through private trade, the value assured to the developing countries in respect of the agreed list, then *the developed country would make good any shortfall by means of a lump sum payment*. Similarly a centrally planned country whose imports from developing countries of items on the agreed list failed to reach the assured level would make up the shortfall by a cash payment.

In this way the developing countries as a group would receive the expected amount of foreign exchange earnings. It is stressed that such transfer payments should be regarded as the fall-back means of making good the assurances given by the developed countries, i.e., the assur-

<sup>3</sup> The foreign exchange earnings for petroleum products often accrue only to a limited extent to the developing country from which the oil is drawn.

<sup>4</sup> In order to allow for goods which passed unchanged through an advanced country (such as Netherlands with its large entrepot trade), the aggregate list value would apply to retained imports only, with the value of the transit goods being counted as part of the aggregate list value of the developed country that first undertook any grading, processing or manufacturing activity on them.

<sup>5</sup> See, *Agricultural Commodities—Projections for 1970*, F.A.O., Rome, 1962, which shows (Table 1) projected trends of population 1958-1970 as—

High income countries 1.2 per cent per annum.

Low income countries 2.4 per cent per annum.

Sino-Soviet area 1.9 per cent per annum.

ances should be met by expansion of trade, with transfer payments being the exception, not the rule.

5. *Agreement on the formula by which such deficiency payments are to be divided among the developing countries should be regarded as a matter for the developing countries themselves.* The distribution of any payments could be made in any one of a number of ways. For example:—

- (a) to each of the developing countries who, in that year, has been a trading partner of the country experiencing the shortfall, pro rata to the value that has been imported of items on the agreed list (not a particularly equitable formula).
- (b) to each and every under-developed country in accordance with its trading position in the agreed base period.
- (c) to each and every under-developed country in accordance with (the reciprocal of) the United Nations scale of contributions. This variant would in effect provide the greatest share of any transfer payments to the countries who stood lowest on the scale of development.
- (d) any other acceptable formula, e.g., into an international development fund.

6. *The transfer payments, if any, would be payable in any convertible currency.* There would need to be a strict rule that they could not be given in the form of tied credits.

7. *The arrangement would be reviewed after each period of, say, 5 (or more) years.*

The period should be long enough to allow the natural fluctuations in price of products in the agreed list to occur, possibly several cycles. This would enable each developing country to have a reasonable prospect of sharing in the benefits of the arrangement, irrespective of whether those benefits accrued by way of high export prices for the commodities of interest to the individual less-developed country, or through the general expansion of trade, or through greater intra-regional trade, or as a last resort, by participation in the disbursement of transfer payments.

The review would also provide an opportunity to consider removing from the developing group, any country that had achieved “take-off”.<sup>6</sup>

Before examining the pros and cons of the arrangement outlined above and the question of whether it is feasible financially, two important points must be made:

- 1. The objective of the scheme is to provide the equivalent of greater trading opportunities. It does *not* endeavour to solve the many difficulties of each and every member of the developing group. The particular requirements of certain areas (e.g., the relatively undeveloped countries such as West Irian, New Guinea, Abyssinia, Chad, etc.) would still need to be met by special aid provisions, direct grants, etc.
- 2. It should be clearly understood that the scheme does *not* seek to provide an assured market or assured prices to any particular

<sup>6</sup> Provision might be made that such country, even though then no longer considered “developing”, would be exempt from the need to accept the assurance obligation, at least until the next subsequent review. This “period of grace” would be intended to enable the country concerned to consolidate its economic development.

developing country or the producers of any particular commodity exported from the developing countries. In other words the responsibility is still on the individual producer to produce as efficiently as possible, and on the country concerned to compete actively in the search for wider markets.

*Advantages:*

An International Import Assurance Arrangement (I.I.A.A.) along the lines suggested above has certain attractions. First, it is based on the concept of a multilateral trading system among nations. It avoids any infringement upon national sovereignty, and does not interfere in any way with the trading or political systems operated by any individual nation.

Second, most Governments in advanced countries have committed themselves to their own electorates to maintain economic expansion. In some cases specific rates of economic growth have been mentioned by Government leaders. Expansion of economic activity normally entails increased imports and exports. The Arrangement suggested above would extend these national objectives into the form of (minimal) international assurances towards the developing group of countries.

Third, it would act as an incentive for the industrialised nations individually and collectively to reduce the impediments to trade facing any of the items on the agreed list, since by doing so they will make it easier for themselves to fulfil whatever obligation they have accepted. Reduction of barriers to trade would at the same time reduce the possibility of having to make transfer payments.

Fourth, no departure from the m.f.n. rule is involved. The entire gamut of impediment-reducing efforts (G.A.T.T., Commodity Arrangements, Compensatory Finance, etc.) could continue to operate in respect of individual commodities or groups of commodities.

Fifth, if a developed country experienced a shortfall requiring it to make a transfer payment because of a decline in its imports at a time when its exports had not fallen, the country concerned should find little or no difficulty in making the necessary payment, since by definition it would be running a favourable balance of trade.<sup>7</sup> If on the other hand it suffered a shortfall on its imports from the less-developed countries as a result of a recession in which both its imports and exports had declined, then provision could be made for the developed country to have access to the I.M.F. to meet the additional temporary difficulty caused by its obligation to make an external transfer payment to the developing group.<sup>8</sup>

<sup>7</sup> While the balance of trade (and hence probably the balance of payments) would have improved for the developed country, there would still be a Budgetary problem since except in centrally planned countries, the reserves do not belong to the Government.

<sup>8</sup> It may be asked: If a country were suffering a recession involving declines in both imports and exports, would it be reasonable to expect it to approach the I.M.F. for assistance in meeting its I.I.A.A. obligations, when it would probably have urgent need to exercise its drawing right to tide it over its own balance of payments difficulties?

The answer is that it would be eminently reasonable to do so, and that the very reasons for the Fund granting advances to enable the country concerned to meet its own balance of payments problems should *prima facie* be accepted as reasons for the additional advance necessary to prevent that country's recession in trade from affecting the export income and development of third (developing) countries.

Sixth, it would obviously be to the advantage of each and every developing country to be a member of such an arrangement.

*Disadvantages:*

There appear to be three main difficulties:

(a) Access: The scheme does not provide any assurance of access. Of what benefit is it to a developing country to receive cash compensation for the fact that it is unable to sell its rubber, its coffee or its cotton? Existence of an International Import Assurance Arrangement could be taken by some industrialised countries as a licence to pursue autarchy and to commute the obligation to import from less-developed countries. Although the cash payments will not necessarily flow back to the commutant country, the expenditure of the transfer payments will add to the general demand for industrial goods. At the same time commodity prices will be forced down as supplies increase and stocks accumulate, so that the terms of trade would tend to alter in favour of industrial countries.

The answer to this objection is that problems of access flow from self-sufficiency policies (already being pursued by some countries and communities) and not from any feature of the suggested Import Assurance Arrangement. If an I.I.A.A. came into existence and an industrialized country persistently sought by transfer payments to avoid its commitment to provide greater trade opportunities, then that country would soon be likely to find itself confronted in international fora by the less-developed countries seeking their expected expansion of *trade*. Developed countries<sup>9</sup> who are providing greater access would probably support the developing group in such a confrontation.

(b) Aid: The need on occasion to make transfer payments (or even just the risk of them as an open-ended contingency) could have the effect that Governments of advanced nations may tend to reduce their aid contributions.

The flow of international aid has been running at about \$3.6 b. per annum,<sup>10</sup> which is approximately one-fifth of the value of imports by developed nations from the developing group.<sup>11</sup> To guarantee increased imports at the same time as they are being called on for greater aid contributions may cause fiscal problems for donor Governments, even though enhanced certainty and higher levels of trade and economic activity that would flow from an assurance arrangement would make it easier for those Governments to finance their aid contributions.<sup>12</sup>

<sup>9</sup> As far as the other industrialised nations are concerned, the decline caused in the world price for the particular commodity would give them a windfall improvement in their balance of trade, thus enabling them to make whatever transfer payments are needed (if they have not already fulfilled their obligation by increased expenditure on imports of this and other listed commodities).

<sup>10</sup> *Development through Food*, F.A.O. Rome, 1961, para. 20.

<sup>11</sup> *World Economic Survey*, United Nations, 1962. Part I. p. 4.

<sup>12</sup> A similar objection was raised by industrialised countries to the Organisation of American States and the Development Insurance Fund compensatory finance proposals (see *Report of Eleventh Session*, Commission on International Commodity Trade (C.I.C.T.), April/May 1963, para. 114). However, the objection would appear to have less validity as an argument against the Arrangement envisaged here which seeks to provide some minimum assured growth of trade for developing countries.

(c) Equity: The I.I.A.A. has another difficulty. Like all formulas it tends to let off lightly the worst sinners and disadvantage (or even positively discourage) those who are already more liberal or are prepared to become so.

However, given the status quo, then there is no lack of equity as between the industrialised countries if all accept an equal proportionate commitment, i.e., a commitment to increase a certain range of imports by some common percentage. The already existing inequities in the import policies of a number of industrial countries (compared to desirable liberal policy standards), could be improved by—

- (i) the negotiation of adjusted “aggregate list values” for the base period, in line with what might have been expected under more liberal import policies. Or (since this is unlikely to prove negotiable in practice):
- (ii) the use of all the existing means (through G.A.T.T., O.E.C.D., I.M.F., etc.) to achieve correction of the offending country’s import policies, with subsequent readjustment of “aggregate list values” at the regular review postulated in point 7 of the proposal.

#### *Testing the Feasibility:*

The financial feasibility of the proposal can be tested by applying the scheme to historical data. The fifties provide a useful test period, since after Korea the terms of trade trended steadily against the developing countries. If an Assurance Arrangement could have functioned over that period, there is reasonable prospect that it would operate successfully in coming years.

The elements of the Arrangement are:

1. A set of obligated countries
2. A commodity list
3. An acceptable base period
4. An agreed rate of increase
5. A formula for disbursement of any transfer payments.

#### *1. Obligated countries:*

It has been assumed that all the developed countries and the centrally planned economies would be expected to participate. As already indicated, the nature of the assurance presents no real problem to the C.P.E.’s. Accordingly, the test has been applied to data for the developed countries, i.e., *including* Australia and New Zealand. Even though also primary exporting nations, it is probable that both the industrialised and less developed groups would look to Australia and New Zealand to participate in view of the high levels of income and nutrition ruling in these two countries.

Because of practical difficulties it has been possible to present data for the following countries only:

U.K.; E.E.C.;<sup>13</sup> U.S.A.; Canada; Japan and Australia.

<sup>13</sup> The Six member countries of the European Economic Community have been treated as a single bloc.



TABLE 1

*Selected Commodities of Importance to Trade of  
Developing Countries**Imports from Developing Countries into North America and  
Western Europe (E.E.C. and E.F.T.A.), 1961*

\$ b. f.o.b.

Coffee	1.65
Iron and non-ferrous ores (a)	1.04
Oil seeds, oils and fats	0.81
Copper	0.74
Vegetable fibres	0.73
Sugar	0.71
Rubber	0.65
Fruit	0.63
Cocoa	0.43
Tea	0.37
Timber (b)	0.32
TOTAL (c)	8.08

*Source:* Derived from U.N. *World Economic Survey*, 1962. Part I. pp. 94-96. Where it proved necessary to convert from a c.i.f. basis to f.o.b., the assumption adopted in the U.N. report was followed, namely that c.i.f. values were considered to be f.o.b. values plus 10 per cent.

(a) S.I.T.C. 281, 283, 286.

(b) S.I.T.C. 242, 243, 244.

(c) For comparison, the total exports (all items, f.o.b.) from developing countries to North America and Western Europe (E.E.C. and E.F.T.A.) in 1961 was \$16.87 b. The comparable figure for total exports less fuels was \$12.29 b. See U.N. *Monthly Bulletin of Statistics*, March 1963, pp. xvii-xxiii.

These countries together formed 92 per cent of the total imports (all items) by the developed group of countries from the developing group in the base period used (see below).

## 2. Commodity list:

In the tables that follow four possible commodity lists have been examined in respect of the imports by these developed countries from the less-developed group as a whole:—

- All products
- All products other than petroleum
- Primary commodities other than fuels (i.e., Standard International Trade Classification, S.I.T.C., sections, 0, 1, 2, 4)
- Selected major commodities taken together.

The selected major commodities (or commodity groups) are shown in Table 1.

These are the commodities (other than petroleum) which rank greatest by value in commodity trade between developed and developing countries. These commodities are also the ones which are of greatest importance in the export trade of most *individual* developing countries; for 71 out of 91 developing countries,<sup>14</sup> the commodities shown in Table 1 are principal exports.

<sup>14</sup> Data from *Yearbook of International Trade Statistics*, United Nations, 1961. The 91 countries mentioned are not all self governing states. In addition there are a limited number of under-developed countries and territories that could not be included in the above count.

### 3. Base period:

For illustrative purposes the middle fifties has been adopted as base-period, more specifically the average annual values for the three years 1953-55. There is no particular virtue in this period; it was chosen as being a relatively peaceful period sufficiently after the Korean war for the boom prices of the early fifties to have subsided.<sup>15</sup>

The tables constructed to test the feasibility of an Import Assurance Arrangement (summarised in Tables 2 and 3) showed the actual imports for later years, so that it would be only a matter of mechanical arithmetic to recalculate the results for any subsequent period as base. Clearly at a time when primary product prices were falling, adoption of a later base period would have made it easier to show that the advanced countries could fulfil the obligations implicit in an Assurance Arrangement. Data is not yet available to assess the effect of the recent upswing in primary product prices.

### 4. Rate of increase:

As already suggested, the average annual rate of natural increase in the developing countries as a whole would probably be the lowest target rate of increase in trade that would have meaning to the less developed countries (L.D.C.) since it would give them the assurance that export earnings per head of population would not fall below the present inadequate level. The highest target that the developing countries might logically seek is the rate of increase in imports by industrially advanced countries needed to ensure that the objectives of the Development Decade are attained.<sup>16, 17</sup>

If it is desired to increase the flow of trade with the developing countries (or the flow-equivalent), then a target rate would have to be negotiated somewhat greater than the rate of expansion of their exports in the past. If on the other hand it is desired to give emphasis to *predictability* in their trade, then some lesser percentage (but above the rate of population growth in the developing countries) might be negotiable as providing a basic assured element in their export earnings.

<sup>15</sup> Availability of statistics on a S.I.T.C. classification and on a f.o.b. basis as far as practicable, was a factor that had to be considered.

<sup>16</sup> See, *World Economic Survey*, United Nations, 1962, Part I., pp. 6-7. Also, *Economic Survey of Europe*, Economic Commission for Europe, 1960, Chapter V.

For comparison, the compound rates of growth in the volume of world trade between 1950 and 1960 were (per cent per annum):

	Exports	Imports
Developed	6.9	6.9
Centrally planned	10.7	11.1
Developing	3.6	4.6
World	6.4	6.4

Source: U.N. *World Economic Survey*, 1962, Part I., p. 1. Exports (by value) of primary commodities by developed countries showed an annual rate of growth of 5 per cent per annum for the period 1955-1961. (See U.N. *World Economic Survey*, 1962, Part I., p. 59).

<sup>17</sup> As imports by the developed countries from developing countries formed only 22.8 per cent of the total imports of the developed countries in 1960 (see, U.N. *World Economic Survey*, 1962, Part I., p. 3), a target growth rate of  $2\frac{1}{2}$  per cent per annum, as used in the tables which follow, would entail an increase on average of only slightly more than  $\frac{1}{2}$  per cent per annum in the overall import bill of the developed countries.

TABLE 2  
*Analysis of an International Import Assurance Arrangement*  
*Imports from less developed countries<sup>(a)</sup>*  
*All Products at 2½ per cent. Target Growth Rate*  
 (All figures in \$m. f.o.b.)

Country	Aggr. List Value (b) 1953-55	1956	1957	1958	1959	1960	1961	Cumulative Excess or Shortfall	Apparent Growth Rate (c)
U.K.	3037	3113 3330 Target rate Actual Shortfall (-)	3191 3220 Excess (+)	3271 3250 -21	3352 3490 +138	3436 3630 +194	3522 3520 -2	-23 +578	2.5%
E.E.C.	4767	+217 4886 5640 Target rate Actual Shortfall (-)	+29 5008 5590 Excess (+)	5133 5500 +367	+138 5720 +459	+194 6260 +867	5528 6400 +872	+3901	5.1%
U.S.A. (c)	5400	+754 5535 5840 Target rate Actual Shortfall (-)	+582 5673 5960 Excess (+)	+367 5815 5790 Excess (+)	+459 5960 5970 Excess (+)	+867 6109 5910 Excess (+)	+872 6262 5710 Excess (+)	-776 +602	0.9%
CANADA	318	+305 326 435 Target rate Actual Shortfall (-)	+287 334 400 Excess (+)	342 351 415 Excess (+)	+10 351 470 Excess (+)	360 500 +140	369 520 +151	+658	8.5%
JAPAN	922	+109 945 1120 Target rate Actual Shortfall (-)	+66 969 1090 Excess (+)	+73 993 1000 Excess (+)	+119 1018 1250 Excess (+)	+140 1043 1400 Excess (+)	+151 1069 1610 Excess (+)	+1433	9.7%
AUSTRALIA	348	+175 357 384 Target rate Actual Shortfall (-)	+121 366 385 Excess (+)	+7 375 417 Excess (+)	+232 384 424 Excess (+)	+357 394 452 Excess (+)	+541 404 425 Excess (+)	+207	3.4%
Sub total (t)	14791	+27 15162 16749 Target rate Actual Shortfall (-)	+19 15541 16645 Excess (+)	+42 15929 16372 Excess (+)	+40 16326 17324 Excess (+)	+58 16735 18152 Excess (+)	+21 17154 18185 Excess (+)	+6580	3.5%
Total imports by developed countries from I.d.c.'s. C.P.E.'s. (ex. M'land China) (d)	16120	+1587 16323 18250 Target rate Actual Shortfall (-)	+1104 16936 18180 Excess (+)	+443 17359 17860 Excess (+)	+998 17793 18770 Excess (+)	+1417 18238 19770 Excess (+)	+1031 18694 19830 Excess (+)	+7117	3.5%
Total imports by Developed and C.P.E.'s. (ex. M'land China) from I.d.c.'s.	16405	+1727 17292 405 Target rate Actual Shortfall (-)	+1244 299 555 Excess (+)	+501 306 640 Excess (+)	+977 514 770 Excess (+)	+1532 322 945 Excess (+)	+1136 330 1210 Excess (+)	+2662	27.3%
		+113 16815 18605 Target rate Actual Shortfall (-)	+256 17235 18735 Excess (+)	+334 17666 18500 Excess (+)	+456 18108 19540 Excess (+)	+623 18561 20715 Excess (+)	+880 19025 21040 Excess (+)	+9725	4.2%

Sources: See footnote to p. 131.

### 5. Disbursement formula:

This element is not germane to determining whether the Import Assurance Arrangement is feasible from the viewpoint of the obligated countries i.e. the already developed nations.<sup>18</sup>

<sup>18</sup> An arrangement along the lines suggested in this paper would present the opportunity to insist that any developing country wishing to participate in transfer payments should be required to obtain a certificate from the I.M.F. stating that its fiscal and monetary policies are conducive to economic development. Such a requirement is completely irrelevant to the satisfactory operation of the system suggested, and could possibly be looked upon as an infringement of the domestic affairs of the developing countries. On the other hand, it is a not unreasonable requirement which the developed countries might fairly expect the developing countries to meet. The majority of the developing countries who are actively engaged in responsible efforts to raise the standard of living of their people, might also be expected to favour such a requirement as a means of ensuring that the available assistance was used most effectively.

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*Sources:* U.N. *Yearbook of International Trade Statistics*.  
 U.N. *Commodity Trade Statistics*, 1952-1961.  
 U.N. *Monthly Bulletin of Statistics*.  
 U.N. *Direction of International Trade*.  
 G.A.T.T. *International Trade*, 1957-58, 1959, 1961.  
 C.B.C.S. *Australia Oversea Trade*.

(a) Country coverage:

Developed:	North America; Western Europe; Japan; Australia, New Zealand and South Africa.
Centrally Planned:	Soviet bloc (U.S.S.R., Albania, Bulgaria, Czechoslovakia, Eastern Germany, Hungary, Poland, Roumania); Mainland China, Mongolia, North Korea, North Viet-Nam; Yugoslavia.
Developing:	Rest of the world, divided into Latin America (including Cuba), Africa, Western Asia (Aden, Cyprus, Iran, Iraq, Israel, Jordan, Lebanon, Syria and Turkey); Southern and South-East Asia.

However, because of statistical difficulties, it has been necessary to include Greece, Turkey and Yugoslavia with the developed countries in the Tables which follow, and consequently in any figures drawn from the Tables that are quoted in the text. The proportional error so caused is very small.

(b) Aggregate List Values in base period 1953-55, i.e., the average annual imports in those years from all l.d.c.'s by each economically advanced country or bloc stated.

(c) U.S. Imports from Cuba were (\$ m.):

1956	1957	1958	1959	1960	1961
458	478	518	467	342	35

(d) Cuban exports to centrally planned economies (excl. Mainland China) were (\$ m.):

1956	1957	1958	1959	1960	1961
15	42	14	13	115	330

(approx.)

(e) Apparent average annual growth rate between base period (1953-1955) and 1961. The apparent growth rates for U.S.A. and for C.P.E.'s are distorted by the switch in the direction of Cuban trade during this period.

(f) The 11 countries covered (E.E.C. taken as a bloc) together represented some 92 per cent of the imports (all products) by all developed countries from less developed countries in the base period (1953-1955).

TABLE 3

*Analysis of an International Import Assurance Arrangement  
Effect of Varying Product List at 2½ per cent Target Growth Rate on  
Imports from less developed countries<sup>(a)</sup>, 1956-1961*

(All data based on f.o.b. values, unless otherwise stated)

Country	All Products	All Prods. ex. Petroleum	Primary Prods. other than Fuels (b)	Selected Commodities (c)
Cumulative Shortfall (—) or Excess (+)				
U.K.	— 23	— 183	n.a.	—1797
	+ 578	+ 158		0
E.E.C.	0	0	0	0
	+3901	+1524	+2711	+1376
U.S.A. (k)	— 776	—2972	—3018	—4143
	+ 602	+ 32	0	0
CANADA	0	— 59	— 74	— 98
	+ 658	+ 146	+ 101	+ 73
JAPAN	0	— 274	— 198	0
	+1433	+ 530	+ 343	+1450
AUSTRALIA	0	— 16	— 20	— 46
	+ 207	+ 38	+ 46	+ 15
C.P.E's (k)	0	0	— 25	n.a.
(Ex. M'land China)	+2662	+2662	+1685	
No. of Years with Shortfalls				
U.K.	2	3 (d, e, f)	3 (g, h)	6 (j)
E.E.C.	0	0 (f)	0 (g)	0 (i)
U.S.A. (k)	3	5	6	6
CANADA	0	2	3	3
JAPAN	0	3 (f)	2 (g)	0 (j, m)
AUSTRALIA	0	3 (n)	2 (p)	4 (q)
C.P.E's (k)				
(Ex. M'land China)	0	0 (s)	1	—

Sources: As for Table 2.

- (a) For country coverage see Note to Table 2.
- (b) Primary products other than fuels comprise foodstuffs, raw materials and mineral ores, i.e., S.I.T.C. 0, 1, 2, 4.
- (c) See Table 1. Selected commodities of importance in export trade of developing group of countries. Also of major importance in export trade of most individual developing countries.
- (d) Aggregate list values were based in this case on 1953 only.
- (e) Out of 5 years. Data not available for 1961 in a form enabling imports from developing countries to be converted to a f.o.b. basis.
- (f) All products less fuels (i.e., less S.I.T.C. 3). For these countries (U.K., E.E.C., Japan) fuel imports are predominantly petroleum products, e.g., Japan 1961 imported only \$8 m. in form of coal from all sources, mainly from l.d.c.'s. (See U.N. *Commodity Trade Statistics*, 1961).
- (g) Aggregate list values were based in these cases on averages of 1953 and 1955 imports from l.d.c.'s. Data for 1954 not available on comparable basis.
- (h) Out of 3 years, 1958-59-60. Data for other years not comparable, hence no cumulative figures shown.
- (j) c.i.f. basis.
- (k) See footnotes (c), (d) and (e) to Table 2 and Observation 2 in text for distortion caused by switch in direction of Cuban trade in period under review.

- (m) Aggregate list values were based in this case on average of 1954 and 1955 imports from l.d.c.'s.
- (n) Australian petroleum import (f.o.b.) figures prior to 1955 were obtained by using export figures of producer countries. Later figures are Australian import statistics.
- (p) Aggregate list values were based on average of 1954 and 1955 data. Base figures contain some degree of estimation.
- (q) Base figures estimated.
- (s) Figures identical with "All products", as no petroleum imported.

#### *Results:*

The four relevant elements indicated above were applied to data for the six years 1956-1961 inclusive. The results of the computations are summarised in Tables 2 and 3.

Table 2 analyses the import trade from less developed countries, with the aggregate list values being derived from *all products* exported by the less developed countries. The table sets out the shortfalls or excesses that would have eventuated if an International Import Assurance Arrangement had operated over the years under review on the basis of a 2½ per cent per annum target rate of growth in the aggregate list values.

In Table 3, the effect is shown of varying the list of products covered. The target rate of growth remained at the 2½ per cent level. For each variant of the list of commodities, a separate table similar to Table 2 was prepared. Each of these tables (including Table 2) was then condensed into a column of Table 3.

#### *Observations:*

The following observations may be made:—

1. If a developed country exhibited a rate of economic growth which led to a rise in list imports at a rate greater than the common percentage increase, then obviously the Import Assurance Arrangement presented no problem. Shortfalls were still possible in occasional years but they were small in comparison with total imports, and invariably less than the excess recorded in other years. The announced intentions of the U.K. Government and of the Australian Government to step up the rates of growth in their countries are relevant in this connection.

2. Of the countries tested and for the period under review (1956-1961), only the U.S.A. showed accumulated shortfalls of any magnitude, at the 2½ per cent minimum increase level, in respect of the "All Products" list or of the "All Products other than petroleum" list.

However, for "All Products", the shortfalls in the performance of the U.S.A. appear much larger in the last two years examined (1960 and 1961) because of the cessation of U.S. imports from Cuba—see Table 4—only part of which was replaced by imports from other developing countries.

If United States trade with Cuba had continued at the average level that ruled from 1956 to 1959 (average \$480 m.), the shortfalls (all items) in 1960 and 1961 would have been only \$61 m. and \$97 m. (instead of \$199 m. and \$552 m., as shown in Table 2). Similarly the accumulated shortfalls over the six year period would have been only \$183 m. instead of \$776 m. recorded in the table.

Adoption of a current base (or other action to exclude Cuba from

consideration) would render it quite feasible for U.S.A. to undertake the type of obligation envisaged, especially given a continuation of her present policy for liberalisation of trade.

3. When primary products are considered (i.e. foodstuffs, raw materials and mineral ores taken together, S.I.T.C. 0, 1, 2, 4), the U.K. also shows shortfalls at the 2½ per cent target growth rate. However, owing to a difficulty of obtaining data for the U.K. on a comparable f.o.b. basis, there is some doubt about this observation.

TABLE 4  
*Shortfalls in U.S.A. imports and U.S.A. imports from Cuba*

	U.S. shortfall (at 2½ per cent target growth rate) \$ m.	U.S. imports from Cuba \$ m.
1956	+ 305	458
1957	+ 287	478
1958	— 25	518
1959	+ 10	467
1960	— 199	342
1961	— 552	35

Source: U.N. *Yearbook of International Trade Statistics*, 1961.

4. The centrally planned economies (C.P.E.) as a bloc would have been able to fulfil a 2½ per cent increase obligation.

5. It would be easier for the developed countries to give an assurance along the lines proposed, if the agreed list on which the "aggregate list values" are determined is made as broad as possible. On the data presented in Table 3 the most favourable situation for developed countries would be to assure expansion of their "All Products" trade with less-developed countries.

This is also the variant that might well be of most attraction to the developing group on grounds:

- (i) It would cover all merchandise exported by all developing countries.
- (ii) It would induce least interference in their internal allocation of resources and in particular would not run counter to their desire to diversify their patterns of exports; rather it would assist this aim.

Restriction of the list to primary commodities might in fact add another inducement for developing countries to shift into the production of the assured commodities for which in most cases the longer term outlook is scarcely optimistic.

- (iii) "All Products" includes manufactured goods, semi-manufactures and simple processed products, so complementing the efforts of the developing countries to obtain improved conditions for these commodity classes.

6. Table 3 shows the cumulative "excesses" and cumulative "shortfalls" for each country under different variants of commodity coverage. The question could be asked whether any "excess" of imports from

developing countries could be carried forward to offset "shortfalls". There seem to be two possibilities:

- (i) If a system of carry forward were to apply to each of the advanced countries separately, then ideally the common rate of growth in imports which should apply would be such that on average or over some acceptable period of years, the total of the expected "excesses" of all the advanced countries would equal the sum of the expected "shortfalls". Such a modification would be exactly equivalent to a two-way compensatory finance arrangement. However, the thought in the present paper is to prove a floor, some *minimum rate* of growth in trade, that the developing countries could at least count on with certainty in their forward planning. Under a floor concept, the advanced countries should not obtain any credit for importing better than their minimum obligation. In other words "shortfalls" would need to be made good by transfer payments, but "excesses" would not be carried forward.
- (ii) Another way of looking at "excesses" is that they might be transferable among the developed countries. In this case, the result would be the same as though the developed countries acted as a group; the obligation to import would then be an assurance given by the developed group collectively to the developing group collectively. Under this variant, the minimum rate of increase would need to be higher to achieve the same degree of assurance, than if the advanced countries were considered individually.<sup>19</sup> While a higher minimum rate might appear desirable, it would carry the disadvantage that a developed country able to show only a slow rate of economic growth, and hence a slow rate of expansion of imports would tend to escape some of its obligation to import from the developing countries by virtue of the fact that other advanced countries were able to exhibit more rapid rates of growth. This would appear inequitable among the developed countries.<sup>20</sup>

There is another disadvantage to a system of transferring or carrying forward any "excess". It would tend to weaken the incentive for developing countries to endeavour to perform well in the marketplace. If a developing country were to take the actions necessary to enable it to gain greater sales in an advanced or a number of advanced countries, it should receive the benefit therefrom, and not have the effect of its efforts appear as an "excess" to be carried forward or transferred for use as an offset to any shortfall.

<sup>19</sup> In practice the negotiable maximum level of the minimum obligation for the developed countries individually would probably be limited by the import expectations of the Government of the advanced country exhibiting the slowest rate of economic growth. (See Observation 7.) If "excesses" were transferable, it would make it easier for the Government concerned to agree to a higher minimum obligation. However, at the 2½ per cent target rate neither form of arrangement would enlarge the *actual* rate of expansion of the exports from developing countries; for that it is necessary to continue to pursue other lines of action, e.g., the G.A.T.T. Program of Action. The present arrangement is designed to increase the predictability of trade.

<sup>20</sup> If a collective obligation existed, then some formula would have to be devised among the developed countries to allocate contributions to any (collective) shortfall.



7. In Tables 2 and 3 the target rate of growth is  $2\frac{1}{2}$  per cent per annum.

From Table 2, the apparent average annual rate of growth of the imports (all products) by developed countries from less developed countries between 1953-55 and 1961 was 3.5 per cent. If the centrally planned economies (excluding Mainland China) are also taken into account the apparent average rate of growth of imports from the less-developed countries was 4.2 per cent per annum.

Higher target growth rates would increase the number of years in which shortfalls occurred. The effect of higher growth rates is shown in Table 5. It should be borne in mind that the period concerned (1956-1961) was one of downward trending commodity prices; over a period in which commodity prices exhibited a more level trend, the proportion of years in which shortfalls would be likely to occur (at any given target rate of growth) would be lower than in the period reviewed.

TABLE 5  
*Effect of Higher Target Rates of Growth on  
Operation of an Import Assurance Arrangement*  
Trade with Less Developed Countries — All Products  
No. of Years (out of 6, i.e., 1956-1961) with Shortfall

	Target Growth Rate (% per annum)					
	$2\frac{1}{2}$	3	$3\frac{1}{2}$	4	$4\frac{1}{2}$	5
U.K.	2	3	3	5	5	5
E.E.C.	—	—	—	—	—	2
U.S.A. (a)	3	4	4	4	4	4
Canada	—	—	—	—	—	—
Japan	—	1	1	1	1	1
Australia	—	—	1	1	1	1

(a) In interpreting the results for U.S.A., see Observation 2 on the distortion introduced by the change in the pattern of trade with Cuba during the period under review.

8. The size of the shortfalls should *not* be compared with the developed country's trade with (i.e. imports from) the less developed countries. To put the shortfalls, if any, in a more appropriate perspective, they should be measured against the total export earnings of the developed country concerned as shown in Table 6.

Comparing these figures with those given in Table 2, it will be observed that the maximum shortfall for the U.K. (viz. \$21 m. in 1958)

TABLE 6  
*Total Exports of developed countries, 1961*  
(all items to all destinations)

	\$ m. f.o.b.
U.K.	10,308 (1958 \$8,893 m.)
E.E.C.	32,320
U.S.A.	20,755
Canada	5,811
Japan	4,236
Australia	2,324

Source: U.N. *Yearbook of International Trade Statistics*, 1961, p. 13.

was only 0·24 per cent of export earnings that year. Similarly for the U.S. the maximum shortfall, after adjustment for the shift in Cuban trade (as suggested in Observation 2) is \$97 m. or 0·47 per cent of U.S. export earnings in 1961.

*Conclusion:*

Given the existing imperfect conditions under which world trade is conducted, and given the desire to improve the trade opportunities of developing countries, then an International Import Assurance Arrangement seems a possibility worth including for further study among the many measures being examined as part of the concerted attack on world trade and commodity problems.

An arrangement of this nature would not be a cure-all. It would not remove the need to pursue with vigour the other possible lines of improvement, since it does not deal with the causes of commodity problems. But so long as these causes persist, it would offer a means of countering their ill-effects. The developing countries would have the assurance that they could plan the hard core of their development programmes with the reasonable certainty that these plans would not be frustrated by failure of trade opportunities or adverse movement in the terms of trade.

It provides a means by which the advanced Western countries can, *without disruption to their own economic systems or their own industries*, give reality to their expressed desire to assist the trade and development of less developed countries.