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LDC Positions on the Common Fund

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Central Intelligence Agency
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Key Judgments

The atmosphere for completing a major international agreement on a Common Fund designed primarily to stabilize the prices of key LDC commodity exports has changed appreciably since the last open negotiations collapsed in November 1977. Energetic behind-the-scenes diplomacy by the UNCTAD (UN Conference on Trade and Development) Secretariat and the announcement at the Bonn summit of clear favorable intent on the part of developed countries have already wrapped this month's scheduled resumption of North-South talks in an aura of expectancy.

Thus, there is a broad sense—most notable among the interested LDCs and the Europeans—that agreement may be imminent on several major aspects of the Common Fund. Nonetheless, there has been an absence of substantial change in negotiating positions since 1977, and the diversity among LDCs with respect to national interests, articulated positions, and basic understanding of scope and objectives persists as a formidable complicating factor to any agreement.

- Although a core of about a dozen of the 34 countries reviewed in this study is willing to stonewall any substantial drift from the original G-77 package, the rest hold views on separate issues that range from willingness to negotiate, through essential disinterest, to flat opposition to the G-77 demands.
- A few countries—Argentina, Brazil, and Saudi Arabia, for example—have no interest in creating a Common Fund and have, until now, appeared to work on the assumption that the United States and other developed countries would shoulder the responsibility of killing the whole package at no political cost to them.
- As in other areas of the North-South dialogue, there is a fundamental lack of understanding of key issues and preparation of delegations for the Geneva meetings, particularly among the poorer LDCs for whom key features of the Common Fund were ostensibly designed.

Beneath this diversity of national situations is a broad recognition that the aspects of the discussion dealing with increased resource transfers to—and within—the Third World are at the heart of most LDCs' concern.

- Although opinions on creating a so-called second window (to support the development of LDC commodity production and marketing) are likely to provide the corridor gossip at this month's meetings, the greatest fundamental differences among the G-77 membership have to do with the financial resources and structure of the Common Fund.
- Of least concern to individual LDCs at the moment are arrangements for voting and for managing the Common Fund once it is established. (Some LDCs are, however, anxious lest any related provisions crimp the authority of existing international commodity agreements.)

While none of this suggests that the LDCs are generally unconcerned with voting or their role in directing the international economic system, there can be little doubt that they have—for the moment—locked their attention on the attainment of another channel for access to developed-country financial support.

No matter how one evaluates the economic interests of individual developing countries or the merits of the Common Fund itself, ample allowance must be made for the point that the LDCs attach great importance to the symbolism of a new international institution and will maintain bloc solidarity to this end. Some LDCs—Algeria, India, Nigeria, Venezuela, for example—will support the original G-77 position simply because it enhances their prestige at little or no immediate cost. A few—some large Latin American and OPEC LDCs—will swallow unsavory features of the original package to elicit support from G-77 members in other arenas of the North-South dialogue. And a large number will go along with most any G-77 stance without ever having really understood or considered the significance of the new institution.

Nevertheless, many economists, businessmen, development advisers, and commodity specialists in both the North and the South strongly doubt that a Common Fund of the scale suggested could achieve the stated stabilization objectives. They question whether the supposed benefits to LDCs' balance of payments could not be achieved more efficiently through existing mechanisms. Beyond this, they are concerned that the new mechanism will do little to meet the real needs of the LDCs, will add somewhat to global inflation, and may (in some instances) transfer resources from the poor to the rich.

If there is considerable risk that the touted economic benefits of the Common Fund will turn out to be substantially less than billed, there is still greater risk that an ineffectual agreement or a lame institution will have an adverse effect on North-South political relations. Those LDCs that see themselves having to accept a bad bet—among them such important US trading partners as Brazil, South Korea, Taiwan, Singapore, Saudi Arabia, and Kuwait—will be even less enchanted should the negotiated Common Fund falter and thereby elicit demands for still greater financial support and institutional scope. Their natural opponents—those LDCs already geared up to effect major changes in the existing international order—will likely become still more aggressive if the Common Fund turns out to be weak because of a shortage of capital. Finally, even those regularly referred to as moderates will be irate and likely to charge cynicism if they feel a treaty has been negotiated by developed-country executives only to be batted down by legislatures.

LDC Positions on the Common Fund

THE COMMON FUND DIALOGUE

Discussions on a Common Fund, under way in one form or another since early 1976, have taken on greater seriousness and direction since the related UNCTAD discussions in Geneva during November and December 1977. A formidable list of unresolved technical issues notwithstanding, both developed and developing countries have expressed a stronger political commitment to the attainment of one form or another of such a fund. An especially important benchmark in this new direction was the Bonn Economic Summit, at which leaders from developed countries pledged "to pursue actively the negotiations on a Common Fund to a successful conclusion." Since, the developing countries' caucus—the Group of 77—leadership has actively lobbied for more rapid progress, and a resumption of negotiations is now scheduled for 14-27 November, again in Geneva. In anticipation of that meeting, the following discussion and country data sheets are intended to provide interested policymakers and negotiators with an up-to-date appraisal of stances and differences among key LDCs.

Recent History of Discussions

Although the lineage of LDC proposals for international support of commodity prices can be traced back at least to the 1955 Bandung Conference, developed-country interest in this topic stems mainly from the OPEC (Organization of Petroleum Exporting Countries) oil price increases and related concern for the prospects of cartelization in nonoil commodities. A rash of articles from business and academic journals during 1973-75 raised the specter of producer leverage in markets for a variety of strategic materials. Because of their long experience with international commodity marketing, most of the developed countries were queasy about intruding into this field and dubious of LDC proposals for a complex organization to stabilize prices in 10 or more primary products. Initially, the United States, Japan, West Germany, and the United Kingdom were the most wary; the United States, in particular, stressed that its presence at international meetings on this topic signified nothing more than a willingness to hear arguments. The continental European countries—especially the Scandinavian countries and the Netherlands, which are usually more receptive to G-77 proposals—were willing to consider negotiating toward a Common Fund.

In various CIEC-[1] and UNCTAD-sponsored meetings that took place in 1976 and 1977, substantial differences in the shape or purpose of a Common Fund emerged from the developed-country and LDC proposals and counterproposals. Going into the November 1977 meeting, the developed countries generally favored a Common Fund built up from (and funded by) functioning international commodity agreements. The G-77 leaders stressed the need for prior, direct financing of a Common Fund whose functions would include:

- The financing of buffer stocks under existing international commodity agreements and the encouragement of new agreements (the "first window").
- The financing of "other measures"—in addition to stabilization—such as economic diversification, market promotion, commodity research and development, and productivity improvements (the "second window").

The November 1977 meeting was suspended at the initiative of the G-77 when the developed countries would not agree to the LDC demands. A statement issued by the G-77 then left open the possibility of resuming the talks at a later date. To place the burden of failure on the developed countries, the G-77 noted that it would not sit down again until the other side showed the necessary "political will" for progress in the negotiations.

Since the November 1977 session, there has emerged a clearer and stronger political consensus among the developed countries and between them and the G-77 leadership that there should be a Common Fund. The final communique of the Commonwealth ministerial meeting in April 1978 reflected a degree of compromise on the part of Australia,[2] New Zealand, Canada, and the United Kingdom toward considering direct government contributions and a second window. This was taken by the LDCs as an important policy shift on the part of some developed countries and a signal to increase pressure on the United States, West Germany, and Japan to reconsider their positions. The Bonn summit in July and talks between the United States and the Association of Southeast Asian Nations (ASEAN) in Washington in August gave further impetus to the LDC belief that the developed countries were showing more flexibility and were ready to return to the negotiating table.

Current G-77 Stance: Key Issues and Actors

To date, the G-77 has not softened its official positions on the Common Fund put forth at last year's suspended conference, despite vigorous activity by the UNCTAD Secretariat and key LDC officials to win backing for various compromise proposals. Bolstered by what they perceive as disunity among the developed countries, hardliners—such as Tanzania, Libya, and Venezuela—have been successful in demanding that there be no alteration of the official G-77 position and in stressing the continued importance of group solidarity.

[2] Australia had already shifted closer to the G-77 position prior to the Commonwealth meeting.

This veneer of G-77 solidarity cloaks considerable churning and reevaluation. LDCs hold disparate views on each of the three major discussion areas—financial resources and capital structure, the second window, and voting and organization (see table 1).

Financial Resources and Capital Structure.

The official G-77 position calls for payments of mandatory capital subscriptions by participating countries before any Common Fund operations begin (the so-called prior, direct financing stance). Borrowing on capital markets and voluntary contributions would supplement this source of financing. In this way, the Common Fund could serve as a central source of finance for both buffer stocking under international agreements and "other measures" to assist LDCs in producing and marketing commodities.

The majority of LDCs (in our sample and at large) supports the concept of prior, direct financing, but with important differences in shading. Among the stalwarts, some—India, Bangladesh, and a number of African countries—see in the Common Fund a chance to create yet another development finance institution and, consequently, support the G-77 approach primarily to assure a new source of capital for commodity development efforts. Others—Tanzania, Jamaica, Libya, and Peru, for instance—take the offensive mainly for political reasons, such as support for the concept of a NIEO interest in regional or G-77 leadership roles, or for logrolling purposes. This last group is especially influential in the caucuses and will probably attempt to provoke confrontation unless a consensus emerges among other key LDCs to push for compromise.

The less zealous supporters of direct funding include two prominent factions. One—composed, most notably, of the ASEAN countries—lends support to this aspect of the G-77 formula because it seeks to augment the funds available to existing international commodity agreements (ICAs). This faction hedges with discreet observations that it could live with some degree of

Table 1

Key Common Fund Issues: Country Attitudes Toward G-77 Positions

	Hardliners	Willing to Negotiate	Opposes	Not Interested
Financial Resources/Structure	Algeria Ghana Iraq Jamaica Libya Mexico Peru Sudan Tanzania Venezuela	*Willing to consider departures from G-77 position* Indonesia, Pakistan Ivory Coast, Philippines Kenya, Sri Lanka Malaysia, Zambia *May be willing to consider departures if other features satisfactory* Bangladesh, Nigeria Egypt, Zaire India	Argentina Brazil Chile Colombia Iran Saudi Arabia	Cuba Kuwait Singapore Thailand Yugoslavia
Second Window	Algeria Bangladesh Ghana India Jamaica Libya Mexico Nigeria Peru Sudan Tanzania Venezuela Zaire	*Wants mainly as sop to other LDCs* Indonesia, Philippines Iraq, Zambia Malaysia *Seriously interested, but could compromise* Egypt, Pakistan Kenya, Sri Lanka	Argentina Brazil Chile Colombia Iran Saudi Arabia	Cuba Ivory Coast Kuwait Singapore Thailand Yugoslavia
Voting and Organization	Algeria Bangladesh Iraq Libya Mexico Peru Sudan Tanzania Venezuela	*Probably insist on ICA autonomy* Argentina, Ivory Coast Brazil, Kenya Chile, Malaysia Colombia, Philippines Cuba, Zaire Ghana, Zambia Indonesia *Probably skeptical of bloc or unweighted voting* Argentina, Indonesia Brazil, Malaysia Chile, Philippines Colombia *Use issues as bargaining points* Egypt, Pakistan India, Sri Lanka Jamaica, Yugoslavia Nigeria		Iran Kuwait Saudi Arabia Singapore Thailand

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pooling of ICA resources (along the lines of the developed-country proposals)[3] and that, above all, it is concerned that the authority of the ICAs not be infringed by *any* negotiated solutions. Another faction—many of whose members are having second thoughts—reportedly presses for direct financing because it feels that a Common Fund with its own resources would be catalytic in the formation of new ICAs. Adherence to this position has weakened, primarily because the lack of progress in related commodity discussions has served to underline the many *technical* problems hindering the creation of new ICAs.

A number of wealthier LDCs are flatly uncomfortable with the G-77 insistence on prior, direct financing. They prefer some cosmetic arrangement, such as a variation of pooling, that would cost them less. Generally these are the countries—Brazil, Saudi Arabia, Argentina, and Yugoslavia—that would as easily welcome the demise of the Common Fund notion. As the negotiations move toward agreement on the basics, several of these countries will probably work to dump the more onerous G-77 financing proposals and may be willing to cooperate in this area with the developed countries.

Some countries—again, largely ASEAN members—have argued that large-scale voluntary funding might facilitate a compromise in a direction away from the simple G-77 formula. Their hope is that large OPEC contributions (worldwide pledges currently total over $100 million) could plug important gaps in a limited assessment scheme. Results along this line have been meager, however, for at least two reasons: OPEC members are generally evasive on the nature of their support; and the G-77 has sought *continuing* contributions, which amounts to an aid crowbar that draws opposition even in some LDC quarters.

With respect to the method of assessment under direct contributions,[4] most of the 34 countries we have surveyed favor country subscriptions based on the clear principle of ability to pay. For many, the formula would be much like the one used to determine UN budget assessments. In such a scheme, the developed countries would provide 70 percent or more of the initial capital contribution. As for the level of assessments, most G-77 members now seem willing to accept an initial capital subscription of $500 million, half the original LDC proposal. Nonetheless, it seems clear that a still smaller scale will be needed to reach a compromise with the industrialized nations.

Yet another financial issue dividing the LDCs is the allocation of Common Fund resoures between stabilization efforts and the financing of commodity development. The countries that have shown most interest in the voluntary funding concept would like to see it provide the main base of support for second window activities. This would leave resources acquired through subscriptions to be used exclusively for the first window, thereby strengthening the role of the Common Fund in stabilization. By contrast, second window partisans—some African countries and the South Asians—stand by the original G-77 proposal, which stresses the importance of commodity development. They argue that without some form of regular and predictable direct financing, commodity development measures by the Common Fund would lack a proper base of support.

Second Window

The G-77 position paper calls for the Common Fund to actively support producers of a broad range of commodities through measures other than stabilization—such as product diversification, productivity improvement, and market promotion activities. (Historically, some ICAs and regional production agreements—in rubber and coffee, for example—have played such roles.)

The *political* importance of the second window to several major LDCs should not be underestimated. The Indians, usually well-prepared for negotiations, advertise it as their brainchild and will battle vigorously for it. The Tanzanians and Sudanese, eager for both more project aid and more influence in the Organization for African

[3] This ambivalence toward pooling stems both from interest in reaching quick agreement on the Common Fund and the recognition that alternative mechanisms, such as a regional STABEX system or action by the ICAs themselves, can also provide the desired additional resources for propping up export earnings.

[4] Were the pooling approach invoked, possibilities for assessment would be determined by financing arrangements in the individual ICAs.

Unity, have been especially vehement on the need for a strong second window controlled by LDCs. The Jamaicans, who usually field exceptionally competent diplomats in North-South exchanges, have cemented their relations with the Africans in other parts of the dialogue with their stand on this issue. Mexico, Peru, and Venezuela, often represented by aggressive and influential spokesmen, continue to champion LDC solidarity on the issue with little risk to their own interests.

For the faithful followers of these hardliners, the second window is mainly a vehicle for development aid. Moderate African countries—notably Zambia and Kenya, but probably a large number of the poorer African countries—seek improvement in the terms of commodity-related project assistance and view a second window as a touchstone of appropriate political commitment by the developed countries. Some of these LDCs, however, have become increasingly doubtful that the second window itself could provide aid flows at the desired levels and, left to their own devices, could probably accept a facility limited to nondevelopmental measures (such as market promotion) for a few commodities, especially if it were coupled with increased aid from other sources.

Although the number of LDCs that are seriously interested in a second window is small, the possibility of any LDC coalition opposing this facility is near zero. All the LDCs will hew to the official G-77 line supporting formation of a second window, while harboring their own perceptions of suitable scale. In this sense, the view—held in some Group B circles—that the question of simply *creating* a second window has substantial conflict potential or trade-off value in other aspects of the negotiations turns out to be a red herring. What might provoke early dissension in this area is an initial negotiating figure so small as to offend an India or so large as to conjure up a distraction from stabilization objectives to a Malaysia.

Thereafter, the kinds of measures to be implemented and the number of commodities to be covered pose fertile fields for controversy. Thus far, the first of these has seen little discussion since it hinges on resolution of the financial scale issue. On commodity coverage, however, a large group of LDCs will press for the inclusion of all 18 of the products in UNCTAD's integrated program, while a few influential LDCs will insist—as in earlier G-77 battles over the issue—on the use of the second window for only four or so of the commodities covered by ICAs. ASEAN spokesmen—and others—have supported a middle position whereby funds could be used to assist development of commodities covered by either ICAs or other special arrangements between producers and consumers; even this middle ground, however, will probably draw fire from several sides.

Voting and Organization[5]

The official G-77 position is that the LDCs must have a majority stake (51 percent) in any voting mechanisms. This would be assigned evenly on the basis of an implied minimum country share. Broad, centralized control of all parts of the organization—first window, second window, and member commodity agreements—would be held by the LDCs.

The original G-77 demand for LDC majority control of the Common Fund is now seriously supported only by the hardliners, who could choose to use this issue for stonewalling if they saw any collapse in other aspects of the dialogue. Other LDC positions on voting primarily reflect financial concerns or vested national interests in existing or possible ICAs.

- A number of second window advocates—India and Bangladesh are examples—seek LDC control of any portion of the Common Fund that allocates aid, but may act along well-established lines of withdrawing ideological demands if favorable financial terms crystallize.

- Some major commodity producers like Malaysia and Indonesia, on the other hand, would actually oppose broad LDC control as

[5] These issues are low on the agenda for this month's meeting and may not even reach the negotiating table.

a threat to the concentrated voting strength they already command through existing commodity charters or to favorable relationships they have developed with consumers in the commodity organizations.

- Others, such as Zambia and the Ivory Coast, recognize the importance of cooperation between commodity producers and consumers in possible future agreements and would not welcome the precedent set by a globally guided commodity institution.

- Conservatives like Brazil and Saudi Arabia would probably oppose any system of management that could deprive financial supporters of control over use of their money or that could link a costly universal subscription to a universal system of control.

A common thread among these national positions on the voting issue is a reluctance to settle on any system before financial arrangements are clearer.

The parallel question of how broad a charter to grant the Fund has always provoked controversy within the G-77. While some of the less affected hardliners still pay lipservice to a Common Fund with broad, ill-defined powers, the majority of LDCs probably will not vigorously defend this stance. Influential LDC members of international commodity agreements strongly support a management structure preserving the independence of these organizations on a wide range of internal matters. Nor is consolidated management of the first and second window—a related issue that is still firmly supported on paper—likely to provoke much G-77 interest so long as the resolution of the financing issues is satisfactory. In the particular case of a compromise second window based largely on voluntary funding, donors will probably insist on separate management to preserve a measure of control over the use of their contributions.

LDC Actors and Preparation

In considering the extent to which the national negotiating teams can actually respond to new initiatives in these areas, it is critical to grasp that most are ill-prepared, that their instructions and latitude vary considerably, and that the largest element of common concern is an injunction from home to preserve G-77 unity. Some few—Algeria, Jamaica, Venezuela, and the Philippines—are represented in Geneva by personnel so experienced or senior as to permit fairly rapid interaction at the conference. Others—Ghana, India, and Zaire—depend on a much more structured or centralized management of policies in this area. And a few—Iraq and Chile—have given so little consistent thought to the Common Fund that they will likely avoid any new departures or will simply associate themselves with the movements of a particular bloc.

Nor is there necessarily one natural focus for Common Fund policy formulation or approval in Third World countries (see table 2). In 13 of the countries surveyed, the foreign ministries take the lead and economists or technicians play limited roles, thereby reflecting the fact that many LDCs continue to regard this North-South issue as primarily political. Related decisionmaking occurs at fairly low levels in quite a few LDCs; only in a handful—Indonesia, Malaysia, Venezuela, and Zaire, for example—has the Common Fund captured the attention of senior policymakers.

Developed-Country Attitudes

With fully as many substantive issues and some 20 actors on the developed country side, there is ample possibility there, as well, for distinctive national positions. Throughout the CIEC sessions, the eight countries representing the developed nations held together fairly tightly on a unified position, partly because the related UNCTAD commodity discussions with the LDCs were only in the initial stages. As a result of the collapse of last November's Common Fund dialogue and the politics that have surrounded attempts to get started again, this unity has tended to weaken.

At this point, most of the developed countries are edging closer to accepting the key features of the Common Fund demanded by the G-77, even though they have yet to work out agreed posi-

Table 2

Formulation of LDC National Policies on the Common Fund: Principal Players

Senior-Level Officials Make Recommendations to Head of State	Interministerial Groups Make Policy	Foreign Ministry Makes Most Decisions	Other Ministry Takes the Lead	Decisionmaking Process Not Sufficiently Clear To Make Judgment
Cuba	Ghana	Algeria	Chile (Mines)	Bangladesh
Jamaica	Indonesia	Argentina	India (Commerce)	Ivory Coast
Sri Lanka	Malaysia	Brazil	Mexico (Commerce)	Libya
Venezuela	Nigeria	Colombia	Saudi Arabia (Commerce)	Thailand
Zaire	Tanzania	Egypt	Singapore (Trade)	
		Iran	Yugoslavia (Geneva Mission)	
		Iraq	Zambia (Finance/Mines)	
		Kenya		
		Kuwait		
		Pakistan		
		Peru		
		Philippines		
		Sudan		

tions. The United States aside, most now concede that agreement on limited direct contributions to the first window and voluntary contributions to a second window is necessary to ensure the success of the November 1978 negotiations. Nevertheless, they adhere to the notion that the Common Fund should basically be financed through international commodity agreements. Differences remain on the size and form of direct contributions and how they should be used, but the Europeans, especially, believe that these details should be taken up after the basic elements are agreed upon with the G-77. The Japanese, still reluctant to take any stand, have said that even they are considering what kind of direct contribution to make to the Common Fund.

The key foreign governments—West Germany, France, Great Britain, and Japan—still agree on the importance of maintaining developed country solidarity and are waiting for the United States to decide on its approach. Nonetheless, they believe the developed countries should consider—as a last fallback position—symbolic direct contributions to the first window and voluntary contributions to the second window. EC Commission officials, in particular, argue that LDC leaders probably would grasp the finality of this position and accept it so as to concentrate at UNCTAD V on North-South demands of more interest to other members of the G-77. Others, such as West German Economics Ministry representatives, contend that the G-77 leadership has given little indication that it would be willing to accept anything less than mandatory cash contributions to both windows. In any event, European anxiety over the possibility of being tapped for contributions at both the November meetings and UNCTAD V will encourage support for a concerted Group B approach.

In an odd twist, the developed countries—except the United States—have achieved general consensus on the issues of least immediate concern to the LDCs—management and voting procedures for the Common Fund. Nearly all of the industrial countries agree that the Fund should have a three-tier decisionmaking structure consisting of a general assembly, an executive board elected by the assembly, and a professional management team appointed by the board. They also agree that, in order to safeguard developed-country interests, voting rights should be based on a multiple system of weighting. This system would include such criteria as trade shares, financial input in the Fund or individual commodity agreements, and the number of votes allotted to commodity agreements participating in the Fund.

Forging a common developed-country position on the Common Fund may be complicated by West Germany's renewed attempt to gain endorsement for a global export earnings stabilization scheme (stabex). Such a scheme would be similar to the one administered since 1975 by the EC for more than 50 African, Caribbean, and Pacific LDCs. Offered more than a year ago as an alternative to the Common Fund,[6] the broader version was studied and essentially shelved by the International Monetary Fund – World Bank Joint Development Committee. That group concluded that stabilization of LDC export earnings could best be handled by expanding the IMF's Compensatory Financing Facility (CFF). Now, officials in Bonn's Economics Ministry, who have consistently opposed the Common Fund and believe it will never materialize, are urging that a global stabex be studied in other forums. The West Germans argue that a stabex would directly compensate for a reduction in LDC commodity export income, whereas the CFF is geared to changes in a country's overall balance-of-payments position and has much stricter repayment terms. West Germany's EC partners have shown little interest in a global stabex. The EC has turned aside requests from the ASEAN countries to study a stabex system between the EC and ASEAN. [redacted]

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Unresolved Issues and Arguments

Even if country differences on the key features of a Common Fund were patched over, major underlying questions would still be unresolved. Some disorder of this sort is, of course, inevitable in reaching agreement among as broad a cast on so complex an issue. Similar uncertainties and confusion attended aspects of the negotiations for the major international financial institutions, the ill-fated International Trade Organization, and the General Agreement on Tariffs and Trade. Many knotty questions on these organizations had to wait for senior-level exchanges to provide breakthroughs. In contrast to these earlier cases, however, there is still no clear consensus among technicians that this new organization would fill a conspicuous gap.

Leading the list of questions is how a Common Fund would supplement and improve on existing channels for compensation, insurance, and resource transfer. Several existing institutions, for example, already offer commodity-related balance-of-payments assistance,[8] and the newness of their extended use suggests that the LDCs are only now beginning to appreciate their utility. Thus, the oldest—the IMF's Compensatory Financing Facility—provided the LDCs $1.2 billion (in 57 drawings) during 1963-75 but—with successive loosening of terms—paid out $2.9 billion (70 drawings) from 1976 to mid-1978. The European Community's STABEX which was put in place in 1975 primarily to serve smaller African, Caribbean, and Pacific LDCs, has already paid out close to $200 million in its first three years of operation.[9] Based on the relatively favorable experience of other LDCs with this scheme, the ASEAN countries [redacted] are pursuing the question of a regional stabex system funded by Japan and other major trading partners without any particular reference to how this would relate to their interest in the Common Fund.

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[redacted]

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[6] Strictly speaking, of course, the two are not alternatives. The Common Fund is directed at stabilizing *commodity* prices; the stabex system is oriented toward the stabilization of *export earnings*. Behind the German argument is a widely respected view that price stabilization only copes with a part of the LDCs' international payments problems—and that, only inadequately. Other aspects of this issue are treated in the next section.

[7] See appendix B.

[9] This is a large sum considering that, excluding Nigeria, these countries account for only about 6 percent of both Third World GNP and trade.

Prior experience with the financing of buffer stocks—the heart of the Common Fund commodity price stabilization scheme—also raises serious questions. Specifically, the IMF Buffer Stock Financing Facility (BSF) has been available since 1969 but has seen only limited use because of problems that would also face the Common Fund.[10] Thus, only a half dozen countries have tapped this source because:

- Only a few ICAs have existed in the period.
- Still fewer—tin, cocoa, sugar—have even envisioned buffer stocks.
- Given prevailing market conditions, only one—tin—has actually required buffer stocking.

There has been no sign that either side in the Common Fund dialogue is considering liberalizing or expanding this facility; the experience with it suggests, however, that it is currently able to meet some of the needs of the G-77 and could be expanded or liberalized if more ICAs were imminent.

In addition to conflicts in the area of stabilization, there is potential for problems with the links between the Common Fund's second window and other development banking institutions. All sides recognize that the second window has been designed to provide more liberal credit terms and a more sympathetic response to commodity-related development proposals. As compared with existing international lending institutions, however, the limited focus of a second window and the attendant risk that member LDCs could politicize access to funds increase the likelihood of financing for ill-conceived or economically unsound projects. So far, little has been said about how this risk would be reduced or how second window projects would be rationalized against activities of the other development institutions.

Also left open is a Common Fund's relationship to the hapless UNCTAD Integrated Program for Commodities (IPC). The IPC commodity discussions have been under way on 18 product areas since 1976, but only for natural rubber is there a clear prospect of an eventual commodity agreement with economic teeth. Of the other commodities not already covered by agreements, serious talks have focused on only about six. Even in these cases, discussions have tended to bog down in technicalities or evolved into heated standoffs, often eliciting skepticism from members of both developed and developing groups.

Underlying this lackluster record is the same fundamental obstacle that has hindered greater use of the Buffer Stock Financing Facility: *there is only a very limited interest in the creation of new international commodity agreements or the inclusion of existing ones under any international institutions.* In more than a few instances, even potential "beneficiaries" of commodity agreements are themselves loath to enter into the sorts of relationships an ICA or the Common Fund would imply for their key export. Chile and Zambia, for instance, entertain doubts as to the worth of a copper ICA; Kenya and Tanzania have balked at the South Asians' tea initiatives; and Cuba is among several Latin American countries that would like to keep the Sugar Agreement unadulterated by membership in any larger commodity clubs.

Beyond the relationships to existing—or other potential—institutions, several other factors will affect the efficiency of the Common Fund in providing resource transfers to LDCs. One of these is the fact that major short-run "winners"[11] from the Common Fund—were it to operate successfully in several commodities—could include such developed countries as the United States, the USSR, Canada, and Australia, each a substantial producer of at least one of the 10 core commodities (see table 3). This, of course, is not surprising since about two-thirds of the nonfuel primary commodities moving in international trade come from the OECD countries. What it implies, however, is a rather inefficient resource transfer mechanism for the Third World so long as the point of leverage is commodity prices.

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[10] One constraint on use of the BSF that would not apply to a Common Fund is the IMF provision that balance-of-payments difficulties exist as a precondition for support.

[11] See appendix C for further explanation of the concepts of "winners" and "losers."

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Table 3

Developed and Communist Countries: Net Exporters of Core Commodities

(Percent Share of World Exports)

Sugar	Copper (Refined)
Australia	Canada
(13.5)	(5.8)
South Africa	Australia
(3.6)	(1.4)
Cotton	Tin-in-Concentrates
Australia	Australia
(0.2)	(9.0)
USSR	Canada
(15.6)	(2.1)
United States	
(20.6)	Tin Metal
	Australia
Sisal	(1.6)
South Africa	
(0.7)	
Copper (Unrefined)	
Canada	
(15.6)	

And finally, the implications for prices constitute a facet of commodity trade issues that has yet to be adequately explored. Many LDCs, for example, see the establishment of a Common Fund as the opening wedge in an effort to improve their terms of trade by steadily raising—rather than merely stabilizing—the prices of their commodity exports. The discussion of price indexation, dormant for some while except in the oil context, can be expected to reemerge as any guidelines are established on the appropriate longer term "trends" around which to stabilize individual commodity prices.

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APPENDIX A

GLOSSARY OF TERMS AND ACRONYMS

Association of South East Asian Nations (ASEAN): A cooperative organization founded in 1967 to promote the economic growth, social progress, and cultural development of the region. Members are Indonesia, Malaysia, the Philippines, Singapore, and Thailand.

Buffer Stock Financing Facility (BSF): An IMF credit mechanism designed to assist member countries by financing their contributions to the commodity stockpiles of qualified ICAs. Countries drawing against this facility must be experiencing balance-of-payments difficulties (presumably traceable to cyclically low commodity export prices). As with the CFF and other IMF credit facilities, they must also pay interest and service charges, and agree to cooperate with the IMF in finding appropriate longer term solutions to their balance-of-payments problems.

Central Source Financing: See Prior, direct financing.

Compensatory Financing Facility (CFF): An IMF credit mechanism designed to assist member countries—particularly producers of primary commodities—that are experiencing balance-of-payments difficulties caused by short-term declines in their overall export earnings. In contrast to the EC STABEX scheme, credit extended under the CFF is subject to service and interest charges. To draw against this facility, countries must agree to cooperate with the IMF to find appropriate longer term solutions to their balance-of-payments problems.

Conference on International Economic Cooperation (CIEC): Largely exploratory talks on a number of North-South themes, held periodically from December 1975 until June 1977. Areas of discussion included questions of development, finance, raw materials, and energy (the last being the starting point for the developed countries in calling for the dialogue and the others having been included as a result of OPEC leverage on behalf of the LDCs). At individual sessions, some 19 countries represented the developing, developed, and oil-exporting groups. Widely differing objectives in each discussion area forestalled concrete results.

Core commodities: A group of 10 primary products that—because of their importance as LDC exports—are viewed by the UNCTAD Secretariat and the G-77 as key candidates for new or strengthened international commodity agreements. The commodities so named are cocoa, coffee, copper, cotton, jute, sisal, sugar, rubber, tea, and tin. Within this larger group, some observers refer to the "core six"—cocoa, coffee, copper, rubber, sugar, and tin—on the basis that the smaller group includes those for which international commodity agreements exist or seem most likely.

First Window: The main element of the Common Fund structure, aimed principally at commodity price stabilization through buffer stocking and commodity sales/purchases.

Group B: The developed nations' UN caucus in the North-South dialogue.

Group of 77 (G-77): The LDCs' UN caucus in the North-South dialogue. Membership is now over 115 countries.

Group of 33 (G-33): The G-77 working group responsible for coordinating LDC positions on the Integrated Program for Commodities and the Common Fund. Its steering group of 12 countries responsible for Common Fund matters (the G-12) includes Algeria, the Ivory Coast, Nigeria, Kenya, Bangladesh, India, Indonesia, Malaysia, Argentina, Brazil, Jamaica, and Venezuela.

Integrated Program for Commodities (IPC): An UNCTAD program aimed at expanding and broadening LDC trade, improving and diversifying productive capacity, and increasing earnings of those basic commodities that form a large percentage of LDC exports. Elements most actively pursued by the LDCs include establishment of individual international commodity agreements and of a Common Fund.

International Commodity Agreement (ICA): A formal arrangement between major producers and consumers to stabilize the price of an internationally traded commodity. Mechanisms employed, singly or in combination, may include: (1) international buffer stock operations (commodity purchases and sales); (2) coordinated management of national stocks; (3) production controls; and (4) export quotas.

New International Economic Order (NIEO): A statement of LDC demands for reform of the international economy; promulgated as a UN resolution at the Sixth Special Session in 1974. The resolution called for structural changes in existing international institutions and creation of new institutions (such as the Common Fund) to increase LDC political and economic power relative to the industrial nations.

Nonaligned Movement (NAM): A movement, started in 1954 by Yugoslavia's Tito and India's Nehru, to offer small developing states an alternative to alliance with either the US or USSR. Viewed by the founders as a political force in the international system, the issues which prompted its creation (colonialism and the Cold War) have eased. Now consisting of about 86 members, the NAM has increasingly focused on inequities in the international economic system.

NAM Council of Producers' Associations: A proposed organization of LDC commodity producers aimed at stabilizing export prices. Promoted by some NAM members since at least 1975 as a "self-help" alternative to the Common Fund, the idea has not received widespread LDC support.

Other Measures: See "Second Window."

Pooled financing (or pooling): A Group B proposal for underwriting the costs of Common Fund stabilization efforts. Under this arrangement the Fund would draw its capital, as needed, from the pooled resources of functioning ICAs.

Prior, direct financing: The principal G-77 proposal for raising the financial capital for a Common Fund. Under such an arrangement, assessments would be made on member governments and would be paid in before any Fund operations began. Also known as central source financing.

Second Window: An LDC-inspired feature of the Common Fund design intended to act in areas beyond buffer stock price stabilization. Its "other measures" to alleviate a variety of LDC commodity problems include financing of export diversification, market promotion, research and development, expansion of local processing, and infrastructure improvements.

Stabex: A mechanism for stabilizing LDC export earnings from selected commodities through loans—and, in some cases, grants—from their industrialized trade partners. Under such an arrangement, transfer payments are made to LDCs when their export earnings from eligible products fall below agreed reference values; when earnings rise above reference levels, repayments are in order. In the particular case of the EC STABEX, transfers to least developed countries (LLDCs) take the form of nonreimbursable grants; loans to other LDCs are interest free.

United Nations Conference on Trade and Development (UNCTAD): An organ of the UN General Assembly with its own permanent secretariat in Geneva; established in 1964 to promote economic development by improving the terms of LDC participation in world trade and finance. The next major conference, UNCTAD V, will be held in Manila in May 1979.

Voluntary Financing: A proposed source of capital for a Common Fund. According to some Group B nations, voluntary contributions from member governments could be used to raise the initial capital for a second window (supplementing pooled financing, which would underwrite only the first window). For the G-77, contributions for any Common Fund purpose would be welcomed on a continuing basis, but only to supplement the initial direct assessments on member governments.

APPENDIX B

THE ASEAN STABEX PROPOSAL

The ASEAN stabex proposal—mentioned in the text of this assessment—is the most recent of a series of LDC designs directed at damping shifts in their export earnings and terms of trade. Like the others—including movements for more international commodity agreements, demands for alternate forms of compensatory assistance, the drive for a Common Fund, and discussions of the need for indexation—it is pointed at what they perceive as a key element of their trade, payments, and growth problems. The inclusion of the following materials is *not* intended as an estimate of the likelihood of success of this particular demarche, but rather as an illustration of one of the ways in which this perennial commodity earnings problem appears and reappears.

Background

An expression of interest by the five ASEAN LDCs* in a 25-commodity, $500-million facility led to serious discussions on a possible stabex at the Japan-ASEAN summit in August 1977. In the euphoria of that occasion, Japanese Prime Minister Fukuda pledged to move forward on proposals for regional commodity arrangements. The first such detailed proposal—still the only substantive document to emerge from the talks—appeared late in the fall of 1977 and is under scrutiny by the Japanese. Continuing informal discussions were capped by an "experts" meeting in Jakarta on 29-30 September of this year. At the next formal round, scheduled as part of a Japan-ASEAN conference in December, Tokyo expects to examine answers to a series of probing questions it tabled at the September meeting. Progress at this session is likely to be slow while both sides weigh worldwide developments on the Common Fund and on a variety of bilateral issues.

Some basic differences persist between Japan and the ASEAN countries on stabex issues:

Commodity Coverage. The current ASEAN proposal requires compensation for earnings shortfalls in each of 17 commodity lines (including tin, already covered by a commodity agreement, and practically all of ASEAN's major exports except rubber). In this the design differs from the recent West German proposals for broader systems that would base compensation on declines in net earnings from a basket of exports. Japan reportedly is still considering the latter, much less costly basket approach and would, in any event, probably insist on narrowing the set of commodities covered.

Financial Base. Early in the talks, ASEAN suggested a first round figure of $400 million to $500 million as the likely cost of its stabex scheme. Although financial limits apparently have not been formally discussed, Japan could seek quotas for each country, as in the CFF, or for the entire operation for a period of years, as in the EC STABEX. Alternatively, the financial base could be narrowed by limited commodity coverage, stringent threshold provisions, and hard credit terms. Whatever the arrangement, Japan will probably not allow the maximum financial requirements of the stabex scheme to approach the ASEAN figure.

Terms of Compensation. In the ASEAN design, earnings shortfalls for exports to Japan trigger compensation in the form of interest-free, unconditional loans. These are to be repaid within five years only if improved export conditions in the affected commodity permit. Japan will probably insist, however, on no better than conces-

* The ASEAN LDCs are Indonesia, Malaysia, the Philippines, Singapore, and Thailand.

sional interest rates and a less open-ended amortization schedule.

Impact and Interests

The stabex talks touch on a variety of economic and political interests. Malaysia, the Philippines, and Thailand—currently major exporters of such commodities as timber, rice, cassava, coconut and palm oils, tin, and copper—see fairly immediate gains from the proposed arrangement with Japan. Indonesia, whose export earnings are now derived 70 percent from petroleum, faces the propsect of a fairly rapid decline in that share in the 1980s; accordingly, it favors a regional stabex as yet another means of evening out its revenues for development. Singapore, a net importer of most of the commodities proposed for the scheme, would gain less but would not stand in the way of its regional allies. From among this cast, Malaysia and Indonesia—both aspirants for regional political leadership—have shown the most interest in a stabex.

Still clouding discussions of the ASEAN stabex is the unresolved status of the Common Fund. Malaysia, usually the most concerned with commodity exports, publicly endorses the stabex scheme as complementary to a Common Fund and will provide the staff support necessary to pursue both proposals over the next several months. Indonesia, a strong political force in the Common Fund talks, will probably go on playing second to Malaysia in orchestration of the stabex discussions. The other ASEAN countries have shown less interest in both institutions; regional solidarity— such as has moved Thailand to a more aggressive Common Fund stance as this year's regional spokesman—will probably supplement economic interests in keeping the individual countries lined up behind group positions on both fronts.

Outlook

Like West German Chancellor Helmut Schmidt, who has pledged to attend a controversial North-South summit in Jamaica this December, Prime Minister Fukuda has shown interest in new ways to reaffirm commitment to Third World and regional goals. Despite the scant achievements of the ASEAN stabex talks so far, Fukuda could step in at the eleventh hour to resolve interministerial differences that now block agreement. Pressure to move in this direction will be greatest over the next few months as both developed and developing countries prepare for UNCTAD V (1979's most important North-South event) and try to compensate for any LDC disappointment from the Common Fund talks.

Japanese acceptance of the ASEAN stabex scheme would have serious implications for other facets of the North-South dialogue. Besides giving a new boost to West German arguments for substitution of a global stabex for a Common Fund, it would put heat on the United States (as another major ASEAN trading partner) to finance this additional commodity earnings scheme. Moreover, it would likely stimulate further demands from other LDCs not presently covered by stabex schemes.

APPENDIX C

MEASURING LDC GAINS FROM COMMODITY PRICE STABILIZATION

The concepts of "winners" and "losers" on the core-six and core-10 commodity packages surface several times in the overview and country notes. For purposes of country classification, we have looked solely at net LDC trade positions in these commodities for 1975 (or the most recent year for which data are available). (See table 4). Countries with positive net trade balances for the core groups were designated "winners"; those with negative balances, "losers." A complete evaluation of trade-related gains and losses from stabilization would require consideration of, among other things, demand and supply elasticities, the inflationary effects of increased prices for derivative goods, and the indirect impacts on income distribution both at home and abroad. Logically, the scope of such an investigation would also include some of the industrialized nations.

Moreover, to predict country stances, the trade analysis would need to be supplemented by examination of the divers commodity proposals themselves and of the broader political and economic considerations that determine national interests in them. Thus, some "losers" may nonetheless support a Common Fund because they regard it as a cornerstone for an NIEO. Some nominal "winners," on the other hand, may choose not to support versions of a fund in which their share of the costs outweighed the potential gains from stabilization. And even major "winners" might reasonably refrain from offering support if they felt they could exert still greater control over commodity markets apart from participation in ICAs or within ICAs not associated with a Common Fund.

Data Set

The trade data on which the commodity positions are based were derived from the UN Food and Agricultural Organization, *Trade Yearbook*, 1975; the UN *Yearbook of International Trade Statistics*, 1976; the International Tin Council, *Monthly Statistical Bulletin*; and the World Bureau of Metal Statistics, *World Metal Statistics*. In the accompanying table, the data sets are grouped to show positions for both the core-6 and core-10 groups.

Table 4

Trade Balances in Core Commodities for 34 Key LDCs

Million US $

Country	Cocoa	Coffee	Copper	Rubber	Sugar	Tin	Total Core 6	Cotton	Jute	Sisal	Tea	Total Core 10
Algeria	*	−11.6	−16.1	*	−75.3	*	−103.0	−6.8	*	*	−5.4	−115.2
Argentina	−17.2	−53.6	−106.8	−20.8	84.8	*	−113.6	5.6	−1.6	*	18.0	−91.6
Bangladesh	*	*	*	*	*	*	*	−54.0	152.6	*	13.7	112.3
Brazil	220.4	852.0	−326.8	−32.8	974.4	24.0	1,711.2	97.6	−6.4	36.8	4.0	1,843.2
Chile	−1.6	−10.4	870.0	*	*	*	858.0	−40.0	*	−0.4	−35.6	782.0
Colombia	−4.0	678.0	*	−7.2	120.0	*	786.8	84.8	*	*	*	871.6
Cuba	*	0.8	−12.3	*	224.6	*	213.1	−27.1	*	*	*	186.0
Egypt	*	−7.5	*	−9.3	−66.2	*	−83.0	513.7	−1.5	*	−32.2	397.0
Ghana	470.0	*	*	*	*	*	470.0	*	−1.6	*	−0.4	468.0
India	−0.8	71.2	−88.0	0.8	62.4	*	45.6	−16.0	−10.4	−1.2	293.2	311.2
Indonesia	2.8	100.0	102.4	362.0	−2.0	99.2	664.4	−88.8	*	*	51.6	627.2
Iran	*	−0.4	−60.0	−12.8	−135.2	*	−208.4	91.2	−2.4	*	−59.2	−178.8
Iraq	*	−1.6	*	−0.8	−103.2	*	−105.6	−22.0	−1.2	−1.2	−53.2	−183.2
Ivory Coast	221.2	286.8	*	8.0	*	*	516.0	16.8	−1.6	−1.6	−0.4	529.2
Jamaica	1.8	3.1	*	*	151.1	−5.7	150.3	*	−1.9	*	*	148.4
Kenya	*	95.2	−2.8	−1.6	−2.4	*	88.4	1.2	−2.4	20.4	62.4	170.0
Kuwait	*	−1.6	*	*	*	*	−1.6	−0.4	*	*	−14.4	−16.4
Libya	*	*	*	*	−97.3	*	−97.3	*	−6.1	*	−25.8	−129.2
Malaysia	12.0	−2.0	*	758.0	−107.2	466.0	1,126.8	−25.6	*	*	−16.8	1,084.4
Mexico	5.6	198.4	41.6	−21.6	95.2	*	319.2	174.0	0.8	0.8	*	493.2
Nigeria	294.0	1.6	*	9.2	*	28.0	332.8	*	−6.4	*	−0.8	325.6
Pakistan	*	*	−18.4	−7.6	*	*	−26.0	155.2	−16.0	−0.4	−151.2	−38.4
Peru	−2.7	34.8	339.3	−4.7	156.0	*	522.7	93.4	*	*	*	616.1
Philippines	−5.6	2.4	−22.4	0.4	580.8	*	555.6	−36.0	*	*	−0.4	519.2
Saudi Arabia	*	−13.5	*	*	−50.1	*	−63.6	*	*	*	−8.2	−71.8
Singapore**	*	14.7	−21.0	241.5	−7.5	*	227.7	−10.4	−12.4	*	*	204.9
Sri Lanka	*	*	*	92.8	*	*	92.8	−11.2	*	*	275.2	356.8
Sudan	*	−7.2	*	−0.4	*	*	−7.6	190.0	*	*	−11.6	170.8
Tanzania	0.8	65.2	*	−0.8	7.2	*	72.4	41.6	*	40.8	11.2	166.0
Thailand	*	−0.8	−18.0	175.2	281.2	106.4	544.0	−44.8	30.4	*	−0.8	528.8
Venezuela	24.8	16.8	−39.2	−15.2	*	*	−12.8	−1.2	*	−0.8	*	−14.8
Yugoslavia	−28.6	−65.7	57.4	−18.7	−94.2	*	−149.8	−121.0	−30.9	*	*	−301.7
Zaire	6.8	66.0	572.0	12.0	*	6.4	663.2	1.2	−1.2	*	2.4	665.6
Zambia	*	0.4	782.0	−1.6	*	*	780.8	3.6	*	*	−0.8	783.6
Total	1,199.7	2,311.5	2,032.9	1,504.0	1,997.1	724.3	9,769.5	964.6	78.2	93.2	314.5	11,220.0

*Amount negligible or data inadequate.

**Singapore is not a substantial producer of any of the core commodities. Its positive trade balances for the core-6 and core-10 groups largely reflect its practice of omitting trade with Indonesia from its customs data and recording reexports of Indonesian rubber as if they were domestic production.

This memorandum was jointly prepared by the Office of Economic Research and the Office of Regional and Political Analysis and coordinated with the National Intelligence Officer for Political Economy.

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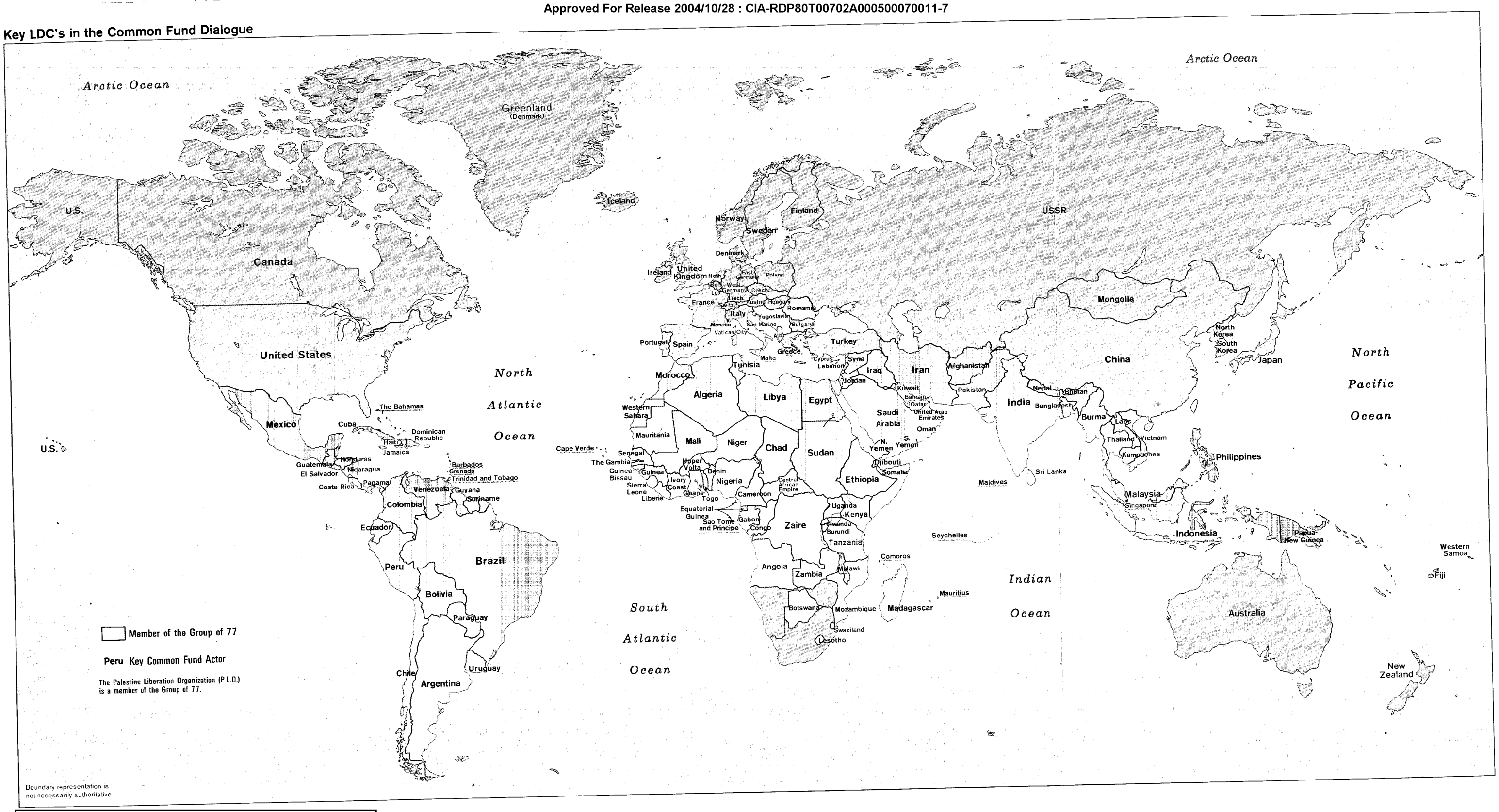
Key LDC's in the Common Fund Dialogue



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