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U.N. CONFERENCE ON TRADE AND DEVELOPMENT

PART 4

THE BIAS IMPEDING THIRD WORLD GROWTH

INTRODUCTION

The United Nations Conference on Trade and Development (UNCTAD)* is a Geneva-based agency of the General Assembly of the United Nations. With a staff of 448 and a two-year budget of \$57 million, of which \$14.1 million is supplied by the United States, UNCTAD was created in 1964 to foster the economic development of Third World nations through increased trade. Instead of this, however, UNCTAD actually has undermined the Third World's potential growth by spearheading the drive to create a New International Economic Order (NIEO).

One-sided agendas, a lack of respect for due process, double standards, politicization of issues, selective attention, and forays into politically loaded but ungermane issues are characteristics that UNCTAD shares with many other United Nations institutions. UNCTAD has been a trend setter, however, in the extent to which its secretariat has increasingly reflected the political culture and the ideological orientation of the U.N.'s most radical members.

UNCTAD's monthly Bulletin reveals a research agenda and a set of conclusions consistently critical of private entrepreneurship and the use of market forces to foster development. A more intensive analysis of UNCTAD studies reveals that these conclusions flow from a set of biases that predetermines which subjects are

* This paper is the fourth in a series on UNCTAD. It was preceded by Heritage Foundation Backgrounders No. 348, "Cheating the Poor," April 30, 1984; Backgrounders No. 374, "Blocking Economic Growth," August 20, 1984; and Backgrounders No. 394, "The Truths UNCTAD Will Not Face," November 26, 1984.

chosen for study, what information will be collected or neglected, and how the selected information will be interpreted.

By relying upon a series of "unscholarly sleights of hand," UNCTAD studies all too frequently "document" conclusions that have been determined before the research in question is undertaken. The six most notorious biases are the following:

- The bias of minimization and glorification, whereby the benefits of private enterprise are minimized or ignored, and the benefits of collectivist schemes are maximized or over-estimated.
- The bias of incomplete assessment, whereby "balance sheets" are juggled to ignore costs or benefits depending upon the conclusions UNCTAD researchers seek to support.
- The bias of Orwellian language, whereby different phrases are used to describe identical or essentially similar practices or activities.
- The bias of the floating yardstick, whereby different standards of evaluation are applied to identical or similar practices or activities.
- The bias against pluralism, the private sector, and individual free choice.
- The bias of silence, whereby activities, practices, or trends that would undercut the ideology of UNCTAD are just not studied.

These biases reveal politicization of UNCTAD that lies far beyond the political processes of the Organization's decision making structures, namely the Trade and Development Board and the plenary Conferences, that have been held every four years. These biases reveal a politicization of the very professional staff that was created to serve all of the members of UNCTAD. Unless these biases are deleted from UNCTAD studies, the professional staff must be viewed not as international civil servants but as a secretariat for the Organization's Third World majority. More important, unless these biases are ended, nations will not be able to rely upon UNCTAD as a source of information about what works and what does not work in helping Third World countries grow and develop.

THE BIAS OF MINIMIZATION AND GLORIFICATION

This bias leads UNCTAD researchers to minimize activities by Western governments or private corporations, while maximizing and dramatizing the effects of UNCTAD's collectivist schemes or proposals. This is illustrated in a recent study by the UNCTAD

secretariat on export processing free zones (EPZs) in developing countries.¹

EPZs are enclaves into which corporations can import raw materials duty free and transform them into manufactured goods for export. The first EPZ in a developing country was established in India in 1965. Five years later there were eight such zones, and by 1980, some 55 EPZs were operating in 30 developing countries and territories while another 33 were being planned or developed.

Given the increasing number of zones in the developing world, UNCTAD's secretariat decided that "it [was] time to ask two questions. What is the experience with EPZs in terms of their contribution to export and industrial development in the developing countries? And what are the possible conclusions which may be drawn from past experience regarding the usefulness of EPZs as instruments of trade and development?"

The answer to the secretariat's first question was "disappointing"--"at least if their economic impact is measured against the rather ambitious objectives pursued by many developing countries in establishing EPZs." On the basis of these "admittedly ambitious objectives," the report made the following criticisms:

- 1) many of the raw materials are imported,
- 2) the production processes are "in the hands of vertically integrated transnational enterprises,"
- 3) the production output "is heavily geared to demand conditions in the developed countries,"
- 4) a large proportion of the trade is intra-firm,
- 5) the producers "choose locally produced inputs only in cases where these exist and can be supplied at world market prices,"
- 6) the pay is low by Western standards and few management personnel are local,
- 7) marketing and production planning are carried out abroad by the parent company.

On the basis of these criticisms, the UNCTAD researchers called for a careful monitoring of the EPZs, and warned developing countries "not to give EPZs undue weight in the manufacturing sectors of their economies." Stresses the summary appearing in the UNCTAD Bulletin: "In particular, small countries have to

¹ "Export Enclaves: How Much Benefit for Developing Countries," UNCTAD Bulletin, March 1984, and TD/B/C.2/211.

avoid the danger that industrial and export growth becomes dependent on what are mere assembly operations."

These criticisms contain an implicit set of criteria against which the EPZs should be evaluated. Even a cursory examination of these implicit criteria reveals a utopian set of standards. In fact, if nations adopted these implicit standards as guides, EPZs probably would not be in the interests of developing nations. For example, what developing country would want to encourage private investors to build plants with materials that do not exist locally in order to produce goods for which there are no ready and assured markets? For example, how could the EPZ output not be "heavily geared to demand conditions in the developed countries" when the main purpose of establishing the EPZ is to produce goods that can be exported to developed countries for hard currency?

EPZs exist in order to serve narrowly restrictive needs of the corporations and the developing countries. The multinational corporations need cheap labor to cut costs and increase profits. The developing countries have a surplus of cheap labor and can benefit from the jobs and foreign exchange that result from export platforms. To expect more from these limited joint ventures merely serves to minimize the very real benefits that EPZs provide.

When the UNCTAD report does focus on the jobs and foreign exchange produced by the EPZs, the authors again employ the bias of minimization. Despite UNCTAD's usual practice of estimating and predicting, for instance, the report never estimates the amount of foreign exchange generated by the zones. Instead, the authors imply that the exchange generated is likely to be small because of investment costs of the EPZs, the small share of domestic value added (25 percent or less), and the fact that firms repatriate the profits they make from the zones.

On the question of jobs created, UNCTAD researchers again minimize an important contribution of the EPZs. According to the UNCTAD bulletin summary:

The study points out that employment in all EPZs located in developing countries is currently estimated to be slightly less than one million persons, or 2.6 percent of the totally registered work force in the developing countries.

For a relatively new development to provide 2.6 percent of the Third World's manufacturing jobs is an extraordinary accomplishment. No one would know this, however, from UNCTAD's statement.

Along with other data in the report, this figure on jobs created makes it possible to estimate a range of foreign exchange generated by the EPZs. According to the study, wages per day in the EPZs vary considerably, from a low of fifty cents to \$1.00 a day to a high of \$10 to \$20 a day. Most of the countries cited fall into the \$1 to \$3 range.

By taking the low wage range and assuming a 300-day work year and a total labor force of one million workers, it seems that between \$300 and \$900 million per year is generated by EPZs. This figure, of course, does not subtract any foreign exchange costs in creating the EPZs. On the other hand, this estimate also is based upon the assumption that the expenditures of the corporations in the EPZs go only for labor, an assumption that is surely invalid and thereby underestimates the amount of foreign exchange generated.

In the abstract, a sum of \$300 to \$900 million may be disappointing to UNCTAD bureaucrats. In perspective, however, it is considerable. The annual foreign exchange generated by the Generalized System of Tariff Preferences (GSP), by comparison, is about \$500 to \$800 million annually. This led UNCTAD Secretary General Gamani Corea to hail the GSP as one of UNCTAD's achievements.² Yet the roughly equal, if not greater, foreign exchange generated by the private entrepreneurship of the EPZs is described by UNCTAD researchers as "disappointing."

THE BIAS OF INCOMPLETE ASSESSMENT

The bias of incomplete assessment occurs when UNCTAD researchers draw up balance sheets magnifying costs and ignoring gains. By focusing only upon costs, UNCTAD researchers are able to support one of the most important ideological tenets of the organization's Third World majority--the argument that net "resources" are flowing from the developing countries to the developed countries and that these nations are increasingly impoverished because funds that could be employed for development projects are "extracted" by the developed countries.

To make this point, UNCTAD studies dwell constantly on the costs or "losses" to the developing countries that accrue from repatriated profits, transfers of technology, trademarks, patents, advertising, tied aid, and debt servicing. In compiling their tallies, however, UNCTAD bureaucrats frequently ignore or minimize the benefits resulting from productive investment, such as the greater supplies of goods and services that are produced, the jobs that are created, and the other spill-overs that flow into the rest of the economy.

This penchant is clearly illustrated in a recent UNCTAD study of the brain drain or what at times is termed "the reverse transfer of technology."³ In this study, UNCTAD researchers illustrate the costs of the brain drain by drawing upon a study of the United States, Britain, and Canada.

² UNCTAD Bulletin, No. 205, September 1984.

³ The Reverse Transfer of Technology, TD/B/C.6/47.

Between 1961 and 1972, these three countries transferred about \$80 billion in official and private resources to the developing countries. During this same period, UNCTAD researchers allege that these three countries experienced an influx of professional and skilled people from the developing countries, who would earn approximately \$42 billion over their working lives. From these two figures, the UNCTAD researchers conclude that:

...the exclusion of these resource transfers implicit in skill flows from the international balance sheet of resource flows has meant that the developed countries' contribution to developing countries has tended to be overestimated to the extent of 50 percent.

To rectify this flow of what UNCTAD calls "foreign aid" from the poor countries to the rich countries, the report examines three policy proposals: (1) mandatory contributions from the developed countries in which the skilled workers now live and work, (2) the levying of a "modest supplementary tax on incomes of developing country skilled migrants in developed countries," and (3) "proposals for an extension of the IMF's compensatory financing facility to take account of fluctuations in migrants' remittances."

In discussing these alternatives, the report estimates that the revenue raising potential of tax sharing arrangements would yield \$500 million if the developed countries gave the developing countries one-third of the taxes paid to the developed countries by skilled migrants; if one-fourth or one-fifth of the revenue were shared, the transfers would amount to \$300 million or \$250 million respectively.

UNCTAD's study of the brain drain illustrates methodological and evaluative biases that appear repeatedly throughout the organization's studies. The UNCTAD researchers, for instance, look at only the gross rather than the net costs of the brain drain. While the study alludes to the fact that migrants transfer some of their income back to their home countries, no attempt is made to estimate the amount of such remittances. Yet India, for example, has been able to close its foreign exchange gap through such remittances.

Instead, UNCTAD estimates the "costs" of the brain drain to developing countries. This estimate, however, is not based upon what it actually cost the developing countries to educate the skilled personnel; nor is it based upon what it would have cost the developed countries to educate the personnel. Rather, the alleged cost of the brain drain to the developing countries is based upon estimates of what the skilled personnel will earn over their lifetimes as doctors, surgeons, and engineers in the developed countries. Such an estimate has no basis in accepted economic or accounting practices. It is completely fictional, useful only in lending support to arguments about a brain drain. This dubious estimate is then subtracted from the public and

private resources transferred from the developed to the developing world. Thus, the researchers conclude that the cost of the brain drain cancelled out all of the foreign aid that the developing countries received from the United States, Britain, and Canada from 1961 to 1972.

What UNCTAD ignores, others wisely have examined. In its World Development Report for 1983, World Bank economists estimated that workers of all types from developing countries--skilled and unskilled--remitted about \$24 billion to their home countries in 1980 alone. The inclusion of annual amounts of this sum would clearly have undercut UNCTAD's dramatization of the "brain drain" problem. This \$24 billion, trivializes the \$500 million that would be raised by a brain drain tax.

THE BIAS OF ORWELLIAN LANGUAGE

UNCTAD's study of the brain drain illustrates another bias in the organization's studies--the use of different sets of phrases for similar practices or activities. When trends or activities take place among developing countries or between developing countries and Soviet bloc states, a positive set of terms is used. When the same trends or activities take place between developed Western countries or multinational corporations and developing countries, negative labels are used.

Since the rise of OPEC, for example, oil rich countries have been importing cheap, but skilled labor from other developing countries. In UNCTAD's study, this South to South migration is not referred to as a "brain drain," but as "skill flows," and the phrase "reverse transfer of technology" is replaced with the phrase, "co-operative exchanges of skills among developing countries."

When the balance sheet on such "co-operative exchanges" is drawn up in this part of the document, a whole series of benefits for "skill exporting countries" appears:

For the skill-exporting countries, possible advantages might consist of: short-term relief from unemployment and underemployment; the generation of foreign exchange earnings in the form of remittances from migrants abroad or of capital transfers in a cooperative arrangement; maximization of the education system potential; and the possibility that professionals who have migrated might return home....

Nowhere are these benefits included in the study's section assessing the cost of the brain drain to developing countries.

THE BIAS OF THE FLOATING YARDSTICK

This bias consists of floating criteria for evaluation. Standards applied to the activities of the developed democracies

or multinational corporations are almost always utopian or perfectionist. When the behavior of Soviet bloc countries is examined, however, a different set of standards is employed. Indeed, UNCTAD studies appear to hold the Soviet bloc countries to no standards at all. Instead, there is a presumption that efforts by Soviet bloc countries are always beneficial and highly motivated.

This uncritical posture is very puzzling because the Soviet Union and its allies have done little for developing countries in terms of trade or aid. In 1976, for example, seventeen of the developed Western countries transferred \$17 billion in official development assistance to the developing countries, while private voluntary agencies from those countries provided additional grants of \$1.35 billion. In contrast, the Soviet Union and its Eastern European allies provided a total of \$1.4 billion in economic aid in 1976, a figure only slightly higher than that provided by private, charitable organizations in the developed countries. That same year, the private sector in the developed countries provided another \$22 billion in investment funds, loans, and investment credits for the developing nations. This means that in 1976, the ratio of aid was almost 29 to 1 in favor of the developed countries over the Soviet bloc.⁴

Despite this vast disparity, the developed countries are frequently chided in UNCTAD circles for not doing enough in the area of aid, while the Soviet and Eastern bloc countries are frequently described in UNCTAD documents as "partners in development." Even more ironic, one UNCTAD document viewed the "socialist" countries as allies in the struggle to eradicate the existing international order, an order that makes transfers of such magnitudes possible:

The Socialist countries and the developing countries constitute important segments of the world economy. Acting together within the framework of international cooperation, the two groups of countries can contribute more effectively to rectifying the adverse effects of the inequitable operations of the international market and thus pave the way for the restructuring of the present international economic order.⁵

UNCTAD's floating yardstick is further illustrated in a document, Trade and economic co-operation among African countries and the socialist countries of Eastern Europe (TD/B/920), which synthesized a series of studies on trade relations between various African and Eastern European countries. The "presumption of benevolence" is immediately apparent in the fact that the Eastern

⁴ The above figures are taken from Michael P. Todaro, Economic Development in the Third World (New York: Longman, 1981), pp. 409-411.

⁵ Ways and means of expanding trade and economic relations between countries having different social systems, TD/B/AC.38/2.

European countries are continually referred to as "partners" and the economic interactions were continually referred to as "partnerships."

In this document, data on the trade relationships between the developing African countries and the communist countries of Eastern Europe are presented for the years 1970 through 1980. During this decade, African exports to Eastern Europe increased from \$779 million in 1970 to \$3,460 million in 1980, and African imports from Eastern Europe increased from \$997 million to \$4,291 million. While these figures represent an absolute increase in two-way trade, the data also reveal that Eastern Europe has been buying a declining share of Africa's exports. In 1970, the Eastern European countries took 6.5 percent of Africa's exports; by 1980, the Eastern European countries were taking only 3.7 percent. The data also reveal that the Africans have been running continual and increasingly large deficits in their trade with their Eastern European "partners." A deficit of \$218 billion in 1970 has soared to \$831 million in 1980.

In UNCTAD's discussion immediately following the presentation of these figures, the absolute increases in trade are magnified by turning them into percentage increases, while the negative trends are ignored. Notes the report:

Exports from Africa to the socialist countries of Eastern Europe rose during the decade 1970-1980 by 340 percent, from US \$779 to \$US 3,460 million. In the same period, imports by African countries from the socialist countries of Eastern Europe rose from \$US 997 million to \$US 4,291, or by 330 percent.

Nothing is said about the declining shares of Eastern European imports as a percentage of Africa's total exports, and the increasing trade deficits experienced by African nations is gingerly treated in a paragraph at the end of the document.

Other data presented in the study reveal a "neocolonial" pattern to the trade relationships among the partners. When the total trade is analyzed by flows of particular commodities, it becomes apparent that the African countries are exchanging increasing amounts of primary products (crude materials, crude fertilizers, mineral fuels and lubricants) for Eastern European manufactured and finished goods (chemical products, manufactured goods, machinery, and transport equipment). It was precisely to end such so-called neocolonial relationships between the developing and developed Western countries that UNCTAD was first created in 1964. Yet when such relationships between communist and developing countries are institutionalized and increase, they are referred to as "partnerships."

THE BIAS AGAINST PLURALISM AND THE PRIVATE SECTOR

To a large extent, the bias of the floating yardstick reflects a more fundamental bias that runs through UNCTAD studies--a bias

against private economic activity. Typical of this bias is the UNCTAD study, The role of trademarks in developing countries. According to the authors of this study, trademarks are not devices to reward and encourage innovation but are largely instruments of theft, mechanisms that enhance "market power" and thereby allow owners to charge higher prices and earn higher profits. According to UNCTAD's researchers, the main benefit of trademarks lies in their use to product rating services. The report notes "that privately operated product rating and reporting services--like Consumer Reports in the United States and Which in the United Kingdom--could not operate were it not for the identification provided by trademarks."⁶ In the main, however, the report concludes that the "social costs exceed social benefits and the new over-all impact [of trademarks] is negative in a number of key sectors."⁷

First among the negatives is UNCTAD's assertion that trademarks lead to "market power" which can result in higher prices and, therefore, in higher profits. Write the authors, "This is a clear indication of misallocation of resources." Second, when such "higher profits" are made by foreign firms, the misallocation is compounded even further. States the report:

In this way, the misallocation of resources in favor of foreigners and particularly transnational corporations is reflected either in the balance-of-payments burden implied in the remittance of profits under different headings or in the availability of greater resources to finance their business expansion within the country.⁸

Such reasoning reveals UNCTAD's fundamental hostility to private economic activity. To be sure, a number of experts have criticized multinational corporations for repatriating their profits and not investing them locally. UNCTAD, however, has it both ways: it blasts multinationals for repatriating profits and blasts them for leaving profits in the developing country "to finance business expansion." Perhaps only UNCTAD could criticize foreign corporations on both counts and in the same sentence. If the corporations repatriate the profits, they misallocate resources. If they invest profits locally, that, too, is a misallocation of resources.

In UNCTAD's view, more fundamental evils of trademarks lie in the kind of products that trademarks promote--"manufactured products that do not meet the basic needs of developing countries"--and the ways in which these products are promoted--"persuasive advertising." According to the report:

⁶ The Role of Trademarks in Developing Countries, TD/B/C.6/AC.3/3/Rev.1, p. 32.

⁷ Ibid.

⁸ Ibid., p. 36.

Foreign subsidiaries through their marketing efforts, modify consumption patterns and local tastes in order to sell their products. Instead of adapting the products to the local needs, they adapt the local needs to their products, and this is mostly done through advertising.... Foreign subsidiaries and licensees are leading factors in the creation and re-creation of consumption patterns in favor of advertised products bearing trademarks. Advertising plays a role in shaping values, tastes, and attitudes which, on the whole, contribute to consolidate what could be called a consumption ideology. This ideology is not only shared by the elites of developing countries who can afford expensive patterns of consumption, but it also extends to sectors of lower income.⁹

These evils, according to UNCTAD researchers, lead consumers, especially poor consumers, in developing countries, to purchase items that are advertised instead of items that are "needed." According to this study:

The basic negative consequence of such a process is that the structure of consumption and production is particularly ill-suited to meet the basic needs of the population of developing countries in terms of shelter, food, medical assistance, entertainment, and transport. The leading trademarked products are generally not designed to meet such needs, but rather the needs of the affluent sectors of the population.

...persuasive advertising leads to a misallocation of resources. This misallocation is reflected in the increase in consumption expenditures at the expense of savings and in superfluous consumption at the expense of basic consumption.¹⁰

Thus, the report comes down against individual intelligence, individual decision making, and the individual's freedom to buy or not to buy in the marketplace.

But what is the alternative to the marketplace and "persuasive advertising?" Who will protect the poor from "the consumption ideology?" Who will ensure that the poor do not develop a taste for Coke or Pepsi, Lyon's Main ice cream or Cadbury's chocolate bars, Lactogen or Clucorin, Peugeot's or Mercedes, these examples taken from a list in one of the document's "supporting" footnotes? Who will ensure that people's resources are used only for shelter, "good" food, medical assistance, the right kind of entertainment, and basic transport?

⁹ Ibid.
¹⁰ Ibid.

UNCTAD researchers never answer these questions because, evidently for them, the answer is obvious. Who else could curtail the rights of individuals and plan their lives and environments for them--who else but government planners and civil servants. Yet, what UNCTAD monograph has ever ventured to compare the "costs" of persuasive advertising and consumption goods with the costs incurred by Third World planners and bureaucrats through corruption, waste, and ill-advised development schemes?

UNCTAD'S BIAS OF SILENCE

The most damaging bias of UNCTAD's researchers is probably the bias of silence; it results from subjects not studied and questions not raised. There is in fact a whole agenda of topics that never will be investigated because they may raise embarrassing questions and provoke doubts about the collectivist ideology of UNCTAD's majority and its secretariat. Topics that would be appropriate and valuable for UNCTAD to address--and thus far have been ignored--are:

- ** National Planning in Developing Countries: Successes and Failures
- ** Disincentives to Agricultural Productivity in Developing Countries
- ** Uses of Funds Transferred by the Generalized System of Tariff Preferences (GSP) in Selected Developing Countries
- ** A Study in Priorities: Expenditures for Defense and Basic Needs in Developing Countries
- ** Indigenous Causes of Emigration from Developing Countries
- ** After Nationalization: Experience with Corporations Expropriated from Foreign Investors
- ** Economic Diversification in Cuba, 1959-1985
- ** Agricultural Development in Mozambique

UNCTAD backers probably would argue that such studies cannot be undertaken because they would "violate the sovereignty of member states." The weakness of this argument about sovereignty, however, lies in the fact that this is a world of alternatives. The alternative to trademarks and persuasive advertising is not some utopian fantasy but statism, planning, and controls. Unless the results of the first alternative are compared against the realities of the second, an informed assessment can never be made. The bias of silence, however, ensures that this informed assessment will never be made.

UNCTAD'S RESEARCH AGAINST DEVELOPMENT

The biases that pervade UNCTAD's research efforts do no service either to the organization's Third World majority or to the confidence that member states have in the integrity of the organization. No nations benefit when research efforts systematically suppress truths that some nations do not want to hear. No nations gain when existing practices are compared and evaluated against utopian standards that have never appeared anywhere. No nations benefit when there are different criteria of evaluation for different types of countries--when, for example, the burden of proof always lies with advocates of markets and pluralism and a presumption of proof lies with advocates of statist planning, economic controls, and the regulation of markets.

The politicization of UNCTAD, then, is not restricted to the activities of its member states and the radical leaders of the Group of 77; the politics that the West faces in UNCTAD also are grounded in a collectivist ideology that pervades the studies and reports of the secretariat. What is studied; from what angle; on the basis of what criteria; and with what data--all of these questions are answered by members of the UNCTAD secretariat from a set of perspectives that belies opposition to the principles of the existing international order and ensures support for a set of principles that at best retard development and at worse could undo much of the progress that has taken place in many developing countries.

The ultimate problem with the ideological nature of UNCTAD studies is not that they have always led to anti-Western conclusions. The real tragedy of UNCTAD studies is that they affirm approaches to development that have failed and at great human costs, and they minimize and proscribe approaches that have successfully fostered development in both the developed and developing world. In this sense, UNCTAD studies work against trade and development policies that work.

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