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Development policy: Shift of emphasis or change of course?

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OPEC

Blunt Oil Weapon

The oil crisis is still being used as a catchword but does no longer unnerve the consumers in the way it did originally. In the industrialized countries of the West there is a gradual revival of self-confidence vis-à-vis the oil producers. An early end of the predominant role of mineral oil is not in sight but a diversification of the energy sources at least is possible. The OPEC countries are therefore watching with concern how an oil surplus is piling up in the world market, partly because their own production has been expanded and partly because high prices, the economic downturn, and the mild winter have cut consumption. The relief fund set up in Washington and the threat of US intervention have given them further food for thought. The fronts put up by the oil producers have softened in the face of these developments, and it does not now look likely that the OPEC will succeed in establishing itself as a production cartel. After the tacit price cuts by Libya — once so unyielding — a collapse of the price cartel looks more likely.

At its conference in Algiers the OPEC moved the switches to a more moderate course. It gave another demonstration of fundamental unity — one need only think of the opening of a dialogue with the consuming countries, the condemnation of the US energy policy, the provisional oil price fixing and the intended introduction of sliding price clauses — but there is no mistaking the fact that the differences about tactics and strategy remain. It would be wrong nevertheless to expect these differences to cause the OPEC front soon to fall to pieces. On the contrary, its prime aim now will be to prevent a worldwide consumers' cartel and to reach bilateral agreements. The overall result may be that the badly deranged balance of power in the oil market will be put right again. zz.

ACP Negotiations

Fundamental Innovations

By early February the negotiations between the nine EC members on the one side and 46 would-be associates among the developing countries on the other were close enough to completion for February 28 to be fixed as a date for the signing of a new association agreement in Lomé, Togo. The agreement, the product of eighteen months

of negotiations, provides for the trebling of the European Development Fund (EDF) to DM 10.5 bn and contains four items of special interest because they constitute fundamental innovations compared with the Yaoundé conventions. The EC will concede non-reciprocal preferences to the ACP states which means that it does not lay claim to counter-preferences: such an arrangement had been held up by French opposition. The EC further recognises the "cumulative origin" rule which is to assist the regional integration of the 46 association states. And there are other innovations concerning the promotion of industrial cooperation and, in particular, the creation of a mechanism for stabilizing export earnings.

The system of export earnings stabilization relates to bananas, cocoa, coffee, tea, coconuts, palm-oil, cotton, skins and hides, timber (except plywood), sisal and — under certain conditions — iron ore. When the export price of any of these products falls below a reference level, the difference will be made good from the EDF, but it has to be repaid to the Fund when the price rises above the reference level. Only the 17 least developed countries among the associates will be exempt from the repayment obligation. Whether the associates were justified in voicing their satisfaction with this system remains to be seen. Critics are already pointing out that the export earnings stabilization system will tend to preserve traditional economic and social structures and operate against the desired diversification of export structures. hh.

Development Policy

Shift of Emphasis or Change of Course?

There are many signs to suggest that the Federal Government is intent on a fundamental revision of its development policy concept. Apparently it wants to freeze the multilateral aid through international organisations like the UN or via the EC at its present level while increasing its bilateral aid. The aim will be to allocate aid as befits the interests of the Federal Republic. Understandable though such a step is on many counts — on balance it must be rejected.

It may well be true that many international organisations are operating at a low level of efficiency. It may be equally true that the UN agencies have not always in recent times distributed the aid according to objective criteria but with an eye on

the majorities among the developing countries since the states of the Third World choose to act in the UN as if they were an undiversified bloc and to condemn, and outvote, the industrialized states as a malignant influence in the world. As far as the EC's development aid is concerned, it is also true that it has been of almost exclusive benefit to French and British ex-colonies and thus to the foreign policy of these two countries while it was left to the Federal Republic to shoulder a major part of the financial burden.

Despite all these annoyances — which must be removed at least partially — one should beware of using development aid as a carrot in economic policy and whip in foreign policy. A decision to this effect may go down very well at home, but as far as foreign policy is concerned, it could only do harm — if not now, then later. For the upshot would be that the recipients of bilateral aid would feel themselves to be economically dependent upon the Federal Republic and be afraid of its political influence. For these reasons it is to be hoped that the German development policy is in for a shift of emphasis only and not a change of course. kw.

Recycling

The Logic of the Kissinger Plan

Dear oil should not present insuperable payments problems for any industrialized country in the West in future — provided, it must be added, that the Kissinger plan adopted by the Club of Ten in the middle of January proves workable. The plan provides for a \$ 25 bn solidarity fund to be administered by the BIS in which only OECD members will participate.

This plan was for a long time fiercely contested because it keeps the developing countries outside and is not anchored to the IMF. The logic of the plan must in the end have convinced all the doubters in spite of this criticism. The indisputable aggravation of the balance of payments problems pressing on many developing countries is in the final analysis an outcome of the oil price policy of the OPEC states. Theirs should therefore be the task of easing these problems in an appropriate manner.

For the industrialized countries as a group the problem is not so much one of creating liquidity as of distributing liquidity. The bulk of the surplus petro-dollars will in any case be invested with them although individual countries will share in them to varying degrees: the oil bills will not in every single case be balanced by the inflow of

petro-money. The solidarity fund is to intervene at this point but only if the country concerned rationalizes its energy consumption at the same time and attempts to add to its internal energy supplies. This linkage of liquidity distribution with internal energy policy is the justification for keeping the fund apart from the IMF. Besides, recycling would not otherwise be a practicable means of effecting the necessary economic adjustments without major disruptions. Such adjustments are indispensable if the forecasts of an end of the petro-dollar glut by 1980 already are to be proved correct. kb.

EC — Comecon

Changed Realities

For years the Kremlin has been refusing to recognise the reality of the EC. Only since late 1972 have there been signs that the Soviet attitude is changing. Party chief Brezhnev himself let it be known that the Soviet Union could not close its eyes to the existence of the Common Market in Western Europe. The contacts which ensued have now led to the first official negotiations of an EC delegation with representatives of the Comecon secretariat in Moscow. These talks were of crucial political importance because they signalize the end of a long period during which the two big economic blocs in Europe were ignoring each other.

The Kremlin was probably prompted by two considerations to attempt a rapprochement with the EC. One is that the Kremlin may find it expedient to temper the strain on the relationship between Comecon and EC, if only formally, in order to create a favourable atmosphere for the European security conference in Geneva which Moscow wants very much to be a success. The second and perhaps more important reason is of an economic nature. At the beginning of this year the EC member states surrendered their powers in the sphere of trade policy to Community organs: they are no longer free to conclude trade agreements directly with third countries. This prohibition can admittedly be circumvented to some extent through cooperation agreements but the latter cannot cover all facets of economic relations, especially if Moscow lays store upon a long-term extension of these relations with Western Europe. Since the clash over trade policy with the USA the Soviets' interest in this direction has probably grown further. Changing realities have now created the prerequisites for a *modus vivendi* between the two blocs in spite of all the differences between the organisations and their consequences. ogm.