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New Aspects of US Economic Policy towards LDCs

by W. J. Feuerlein, Boca Raton, Florida *

President Carter assumed power in Washington in January, 1977. Since that time, many aspects of US foreign economic policy, especially those involving the less developed countries (LDCs), have been reviewed and some new approaches have been introduced. Foreign aid concepts have been adjusted and the US has actively participated in the North-South Dialogue; it has also become increasingly involved in international economic including UN conferences.

In this short paper, only a few special aspects are being reviewed, namely, the emphasis on human rights, the concern about stability of international payments and avoiding international defaults, and maintaining our free market concept in the negotiations for a Law of the Sea Treaty. Most of these problems are of worldwide importance; however, they affect deeply the LDCs and thus are of fundamental and long term significance.

Strengthening Human Rights

President Carter has taken a firm stand on human rights, and he desires his concept of human rights not only to apply to the US foreign policy in general but particularly also to our foreign economic policies towards the developing world. No specific guidelines have been issued how to interpret or to apply this concept. In his first speech, on this aspect of foreign aid, Secretary of State Vance several months ago reaffirmed that the US will look to the use of economic aid as a mechanism for fostering human rights, in both bilateral as well as in multilateral programs. The US Government recognizes that many LDCs need assistance in food production, health care, in education, in furthering and strengthening their nations' economic development. However, it is also recognized that these vital needs can be subverted or misused by the governments in power, so that the foreign aid does not really benefit those who need it most.

There is no question in the minds of a large segment of the US population that the human rights approach is a positive step in our foreign policy, and is a desirable supplement to our basic political ideals. How this is actually to be done is difficult to forecast at this time. Recently, a group of liberals, as well as conservatives, pushed in Congress for requiring the US to vote against loans by international financial agencies to any

nation that engages in a "consistent pattern of gross violations of international recognized human rights". Exceptions could be granted when the basic human needs of citizens are to be actually assisted. Although this provision is already included in legislation providing US funds to the Inter-American Development Bank and the African Development Bank, the attempt to make it worldwide and particularly make it applicable to the World Bank has so far not been achieved. This attempt in Congress to include the human rights aspect into our foreign aid legislation is subject to much debate; in fact, the Carter Administration does not want it at this time because it could reduce and/or hamstring the implementation of a new foreign economic policy.

The main difficulty with this new concept is how it will be determined that a country "consistently" violates human rights and how will it be possible to mesh a political concept with the furthering of economic development. A positive approach will probably be used, namely those countries that grant "adequate" human rights to their people will receive relatively easier and larger amounts of foreign aid in contrast to countries that restrict their citizens' rights too much. It also must be interpreted and applied so as not to be called "interference" in the internal affairs of a country. Nevertheless, it is certainly a new aspect of our foreign economic policy.

Sympathetic Approach to the Needs of LDCs

Another statement by President Carter may be considered a stimulating aspect of our foreign economic policy towards the LDCs, namely, the call for a "sympathetic" approach to the needs of the less developed world. This approach is based on the President's own experience. He comes

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from the State of Georgia, namely, a state in the South of the US that until recent years has been one of the less developed states in the US. He knows what less developed means; he also knows that it is difficult to change basic economic and political structures. President Carter seems to recognize that economic or political "confrontation" is not the best approach to bring about consistent and sustainable rapid growth in the less developed parts of the world. By taking a sympathetic approach to the problems, Carter will hopefully encourage the type of development that has also helped the South of the US.

Being sympathetic does not mean that all the requests made by the less developed countries of the world have to be met. In particular, the new international economic order demanded by many LDCs can certainly not be met directly; however, confrontation also is not the solution. President Carter desires that we listen to the needs of the LDCs, their problems, their aspirations, and then develop a constructive dialogue in order to see what can be done.

Precarious Balance of Payments Position of LDCs

The balance of payments position of most LDCs has usually been rather precarious. In the early 70s, the increase in metals and raw materials prices temporarily helped many of them to increase their foreign exchange earnings, and thus also to increase their imports. The world recession and the dramatic increase in oil prices changed this situation drastically. In order to maintain the pace of development and especially imports for their development programs, many LDCs resorted to additional financing in the European capital market, namely, through banks in Europe and the Eurocurrency market. As shown in the table below, the debt of 84 developing countries increased by more than 150% between 1970 and 1975. Credits or loans from official institutions or from governments somewhat more

situation is created because the loans and credits from private sources usually mature from 7 to 10 years, whereas the loans from official entities are usually for much longer terms. As major repayments are only a few years away, the balance-of-payments position of many of the LDCs may again become very precarious; aside from large amortization and interest payments, the export earnings of the developing countries have probably not kept pace with their import needs because of the world recession and the decline in many internationally traded raw materials, especially metals.

A more detailed breakdown of the figures shows that the problem is largely concentrated in countries classified as high-income, or middle-income developing countries. Debt increases by countries with the lowest per capita income have been much smaller than those of the others. As the middle- and upper-income developing countries basically are in a major phase of development, serious difficulties may be encountered. The Mexican situation is well known. Mexico had to devalue because of its large internal as well as external debts and heavy internal inflation; also the economic recovery has not been proceeding as rapidly as expected. Oil and copper discoveries may gradually help, but these are long-term prospects. In Brazil, a similar situation may occur. The world coffee supply situation is rapidly improving which means that world coffee prices will decline from their extraordinarily high levels, bringing about a considerable decrease in the export earnings of Brazil and some other coffee export countries.

It has been reported by the World Bank in its "World Debt Tables" that there are many countries in which the debt service as a percentage of exports of goods and services are now larger than 20% of total foreign exchange income. The figures which were calculated for 1974-75 are probably going to be much larger now; so that many of the LDCs may encounter difficulties in meeting these payments and keeping up their development programs at the same time.

Outstanding Debt of 84 Developing Countries

(US \$ in bn)

	1970	1975
Official Creditors	50.3	106.8
Private Creditors	20.9	67.5
Total	71.2	174.3

Source: World Bank.

than doubled; loans obtained in private markets, however, more than tripled. In 1976 this pattern continued, and the figures, when published, will probably show that private credits increased much more rapidly than official credits. Thus, a new

Preventing International Defaults

Preventing international defaults has become a major aspect of the foreign economic policy of the US and also of the international financial community. A request for a moratorium or a forgiving of debts has been made by the LDCs at recent conferences. It has not been accepted, especially since it would cause serious international complications; defaults would raise similar problems. The international financial structure may be threatened with chaos; however, it is also recognized that if the LDCs want more funds, especially from private sources, they cannot risk large-scale de-

faults. Thus, it seems to become a concern of the governments of the lender countries and the international institutions to bail them out or to tide them over.

One of the steps usually taken when default threatens is for the creditors to agree to a re-scheduling of the debts and to arrange for new money. However, the new money may be only a substitute and in the long run will not help to solve the financial problems of the LDCs. The US and other developed countries thus must look to additional policies to mitigate or prevent future difficulties.

In the first place, the US is participating in many international raw material conferences in order to facilitate programs designed to stabilize world prices of important world trade commodities. Arbitrary restrictions usually do not work, but reasonable programs moderating fluctuation may be of benefit. In this connection it is noteworthy that the US will probably participate in a fund to help stabilize international commodities; this will be done on a case-by-case basis rather than on a worldwide commodity basis.

In the second place the US and other developed countries are trying to strengthen the financial resources of the International Monetary Fund by creating a special fund, hopefully of about \$ 16 bn, to assist the LDCs in meeting unforeseen foreign exchange shortfalls.

In the third place, the US may agree in World Bank meetings to reschedule World Bank loans. So far, the World Bank has always had priority in repayments of both interest and principal; however, in recent appropriation requests, the Carter Administration has requested the appropriations of the reserves, namely, the unpaid reserves that would be available in case the World Bank should suffer losses. So far, Congress has not acted on this but it is likely that a portion of this will be made available to the Administration so that it can be used in case of need by the World Bank.

Finally, the US, in cooperation with other developed countries will try to arrange rescheduling conferences as needed, hopefully also with the private lending institutions which would provide a forum for discussion of the debt situation and future needs of funds by the LDCs.

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V E R L A G W E L T A R C H I V G M B H - H A M B U R G

Law of the Sea

Many years ago, the United Nations declared the resources of the oceans, especially the deep oceans, to be „common heritage of mankind“. No definition of this concept was prepared, nor were at that time procedures elaborated to deal with this concept. Subsequently, the UN convened several Law of the Sea (LOS) Conferences to work out an international treaty. The last of these conferences took place May to July of 1977.

Progress towards a LOS treaty has been slow because it would have to cover many aspects which would abrogate the traditional concept of "freedom of the seas". With respect to aspects subject to LOS Committees II, III, which deal with concepts such as the increase of the territorial sovereignty from three to twelve miles, the establishment of a 200 mile economic zone, passage through international straits, procedures for scientific research, etc., etc., basic consensus has been reached. This has been possible because it is really an extension of sovereignty and economic power and other matters of general interest. Details will still have to be worked out but at least a framework has been established.

No agreement nor even a consensus has so far been reached concerning mining of the deep oceans which is subject to Committee I of the LOS Conference. Current interest centers on the mining of manganese nodules which are plentiful on the ocean floor and contain many usable minerals which the world will need in larger and larger quantities. The LOS Conference, which regards all resources of the deep oceans as common heritage of mankind, is deeply divided as to how these resources should be made available to the world's consumers.

The LDCs, through the Group of 77 (G-77), which have the voting power in the UN and also in the LOS Conference, and which supply currently to the world many of the resources which could be found on the ocean bottoms, are naturally interested in limiting the exploitation of these resources so that no adverse effects to them would result. Thus, they want production controls limiting the exploitations of the oceans, particularly since they do not have the technology or financial resources to participate in this type of operation. Moreover, as part of the policy to change the international economic system, they so far insist that all mining of the deepsea beds, if and when undertaken, will only be done by an international authority set up through the Law of the Sea Treaty, and particularly through a so-called "Enterprise". In other words, the G-77 wants to introduce and establish firmly the principle that all exploitation of the resources of the deep

oceans be done by an international state enterprise, without direct participation, or without giving the industrialized world the right to have its industrial concerns participate directly in the exploitation of these resources.

The developed world agrees in principle that the resources of the deep oceans should be mined with benefit to all mankind. This is defined as providing to the consumers of the world the increasing quantities of metallic resources needed at reasonable prices, and also to provide the LDCs with royalties from the mining operations; since royalties generally have to be paid to the countries where mining takes place, there is no objection to reasonable royalties paid to an international organization for the LDCs. The developed world, however, wants to accomplish the mining through the free-enterprise system, namely, demanding free access to the resources in the deep oceans so that their technology and financial resources can be put profitably to work.

Protection of Free Enterprise System

The key policy issue or difference, then, is in the field of who will do the development of exploitations of the deep seas. Should it be an international state enterprise which is a type of "socialistic" concept, or should it be done through the profit motif, namely, through the free enterprise system? Since the US and other developed countries are generally opposed to a system of state enterprise, they have resisted all efforts by G-77 to introduce the principle of a state enterprise as an exclusive or monopoly operating organization. Although a compromise was suggested that a so-called parallel system be developed, which really means that both free enterprise and state enterprise would be permitted access to the resources of the oceans, so far, the G-77 has insisted upon its principle.

The Carter Administration is committed to the free enterprise concept. It is thus of fundamental importance that in these international negotiations this concept be preserved; any other approach would weaken the whole concept, which has brought about such tremendous wealth to the free world.

In the continuously changing world, new economic policies will have to be developed, and naturally they will deeply affect the LDCs. Although new directions in our foreign aid policy will be important, one should not overlook other aspects of international economic development. In fact, many of these more general economic policies will play an ever-increasing role in the future development of the world.