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# Key Countries in the Third World

## A Challenge to the Industrialised Countries

by Klaus Eßer, Jürgen Wiemann, Berlin\*

**Present classifications of the developing countries are of limited usefulness as a basis for determining development policy priorities in the industrialised countries, argue our authors. They define a group of "key countries" which are of strategic importance for the world economy and outline the development risks facing these countries<sup>1</sup>. They suggest that the OECD countries would be better advised to follow a policy of cooperation with these key countries rather than the "man mind thyself" policies which are presently gaining in popularity.**

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In the industrialised countries operational classifications of the developing countries are made for the purpose of formulating differentiated foreign trade policies, as well as priorities and modalities of development policy. This approach, focusing as it does on specific characteristics of groups of Third World countries, has its justification, but also its limitations, as can be seen in the following examples:

□ The concept of "newly industrialising countries" (NICs) covers partially industrialised countries with significant exports of manufactures and a high potential for increasing those exports. It includes up to 15 extra-European developing countries, as well as some east and south-east European countries<sup>2</sup> which – with the exception of Yugoslavia – belong to COMECON or, at least in the near future, to the EC. Malta is often included among the NICs but China and India are not.

□ In development policy classifications the more advanced developing countries are frequently described as "threshold countries". This concept is imprecise; it suggests that certain developing countries are already at some "development threshold" and are therefore less dependent on outside finance. Both statements are only partially correct: oil-importing countries in the process of industrialisation continue to require extensive external development financing even if their exports of manufactures are increasing rapidly; as a rule they are heavily in debt. Besides, by far the major part of the world's absolutely poor live in those countries which, by economic criteria, are advanced developing countries.

The processes of diversification and formation of key areas in the Third World cannot be defined by either of the two concepts; these processes are brought about mainly by countries who have begun with a process of industrialisation geared mainly to internal demand. An analysis of the economic differentiation process in the Third World shows that of the 143 extra-European developing countries and territories no more than 26 have embarked upon a process of industrialisation. A broadly conceived process of industrial development emphasizing industrial expansion geared to internal demand either from the outset or at least as a growing trend is pursued by 17 countries; nine more, whose potential is inadequate for such an expansion, are establishing a specialised industrial production apparatus oriented towards exports. These 26 developing countries account for 80 % of the population of the Third World (nearly 59 % of world population) and for 85 % of the gross domestic product of the Third World (17 % of world GDP).

### Emergence of Industrial Structures

Four highly populated large-area economies (China, India, Brazil, Mexico) with 56 % of the population and 47 % of the GDP of the extra-European developing countries have already achieved relatively diversified industrial structures. They will further promote the process of horizontal and vertical interlinking during the

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<sup>1</sup> Cf. Klaus Eßer, Jürgen Wiemann: Key Countries in the Third World – Implications for Relations between the Federal Republic of Germany and the South, Berlin 1981.

<sup>2</sup> OECD: The Impact of the Newly Industrialising Countries on Production and Trade in Manufactures, Paris 1979; Government Economic Service Working Paper: The Newly Industrialising Countries and the Adjustment Problem, Vol. 18, London 1979.

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eighties and nineties and, in particular, set up an even more diversified capital goods industry including various complex capital goods. Inward industrial expansion is clearly the most important source of growth; exports of raw materials and manufactures have an important supplementary function in that they render possible the necessary large imports of capital goods and technology.

A process of development of diversified and interlinked industrial structures has also been set in motion in six other countries:

□ It is taking a particularly dynamic course in two East Asian countries (South Korea, Taiwan) which, during the phase of rapidly growing import demand by the Western industrialised countries, fitted themselves into the international industrial division of labour on the basis of efficient and flexible economic policies and are today, in close cooperation with the Western industrialised countries, in particular Japan, striving to set up a broad industrial base for their export industries.

□ Three further countries (Argentina, Turkey, North Korea) have opted for industrialisation geared to internal demand without, however, possessing the same potential for this as do Brazil and Mexico. The two market-economy countries have meanwhile begun to switch towards additional utilisation of opportunities for industrial division of labour with the industrialised countries and towards increased regional exports.

□ In Iran, finally, an industrialisation model which had one-sidedly opted for large-scale infrastructural, raw materials, armaments and nuclear projects was abruptly cut short. The rapidly growing population, the urban concentration of the population, a solid raw material – in particular: energy – base, together with strong external pressure are, however, favourable for the continuation of industrialisation on the basis of an alternative strategy, following a transitional phase.

### **Obstacles to Industrialisation**

Seven highly populated countries (Philippines, Thailand, Egypt, Pakistan, Colombia, Indonesia, Nigeria) are at the beginning of a process of industrialisation geared principally to internal demand. In these countries industrial development is still greatly impeded by structural problems. Moreover, domestic demand for more complex consumer goods and for capital goods is still relatively slight.

Four other countries (Algeria, Saudi Arabia, Iraq, Venezuela) are setting up a specialised industrial production apparatus on the basis of their sources of

raw materials, especially energy. Admittedly their technological capacity for imitation is still slight; their learning processes are exceedingly costly but can be financed from their oil exports. Internationally relevant exports from energy-intensive industries are not expected from these countries until the second half of the eighties.

Three further countries (Chile, Peru, Malaysia) are specialising in the processing of minerals (copper, tin, etc.) as well as on exports of manufactured consumer goods – though only Malaysia has had any appreciable success along these lines.

Finally, the city states of Hong Kong and Singapore have succeeded in developing into industrial export bases by means of export-oriented policies and thanks to the high performance-mindedness of the population and a high degree of corporate-administrative flexibility.

Although this group of countries in the process of industrialisation should not be viewed as a closed group, only a few countries (Vietnam, Morocco, Kuwait) represent borderline cases. In most of the 117 extra-European developing countries without a process of industrialisation both an inward-looking and an export-oriented strategy of industrialisation encounter well-nigh insuperable problems. Export orientation is confronted not only by domestic obstacles, whose removal would primarily require fundamental institutional reforms, but also by the current reduction in the growth of demand on the part of the Western industrialised countries and by strong competition from the barely ten countries already successfully exporting manufactures. In such a situation newcomers have little hope of joining the group of manufactures-exporting developing countries.

### **Key Countries**

Collectively the countries in the process of industrialisation represent a major part of the demographic potential, of reserves of raw materials and energy, of industrial net product, of direct foreign investments, of public indebtedness and of international reserves. Taken together they already possess a considerable economic potential: their GDP amounts to approximately one-quarter of that of the OECD, 58 % of that of the USA, about three-quarters of that of the EC and is nearly as high as that of COMECON. The two most important economic potentials are in China on the one hand, and in the five major countries of Latin America (Brazil, Mexico, Argentina, Venezuela, Colombia) on the other. At present these two potentials are roughly equal in size.

Allowing for the different dynamics of growth in the OECD area (presumably with the exception of Japan) and in the countries now in the process of industrialisation it may be assumed that the economic relevance of the latter will increase rapidly. The absolute growth of the national product of this group is likely in future to be about equal to that of the OECD countries. An absolute growth in the OECD of 1 % (US \$ 55 bn) would be attainable by the countries in the process of industrialisation with a 4 % growth rate on their part (5 %: US \$ 70 bn; 6 %: US \$ 81 bn). The world's growth centres would then be located in the key countries and in Japan. An average real growth rate of 5-6 % would seem to be attainable.

The group of countries in the process of industrialisation also embraces the political potential of the Third World. Most of these countries are gravitational countries, i.e. they possess within their regions a decisive economic, financial, political and military weight, and shape the process of intra-regional cooperation all the way to economic and political integration and to external bloc formation. The major countries in the process of industrialisation, such as Brazil and India, are, moreover, responsible for the further development of South-South relations.

The group of key countries includes not only the regional leaders but also the Third World opinion leaders, the (at least potential) middle-level powers (i.e. the powers below the superpowers) and the potential nuclear powers. Finally, the group – from a geo-political and geo-strategic angle – also includes those Third World countries which are relevant to security policy.

Particular importance attaches to 19 of the 26 countries in the process of industrialisation from a great variety of international economic and political considerations. They are Third World "key countries" for the shaping both of North-South relations and of bilateral relations between industrialised and developing countries. This does not, of course, rule out the possibility of other developing countries playing an important part on grounds of specific economic or security policies or as Third World opinion leaders.

### **Risk Profiles**

What development risks are there in this group of key countries, which is becoming increasingly important to international economics and politics? An analysis of the development risks related to foreign trade and to the domestic economy, and of social and regional development risks reveals a relatively unfavourable risk profile for two sub-groups of key countries:

□ The slowing-down of the expansion of international trade and the oil price increases are giving rise to difficulties with regard to growth and financing in those countries which are exporters of manufactures and large-scale importers of oil (Brazil, South Korea, India, Turkey, etc.); these problems are further aggravated by the need to develop new sources of energy. Moreover, it is just in these manufactures-exporting countries that, because of one-sided growth policies, structural distortions are appearing, giving rise to a considerable potential for political unrest. Certain countries in the process of industrialisation which, because of domestic obstacles, were, and still are, unable to step up their exports appreciably, e.g. Turkey or Pakistan, are already finding themselves in a more or less apparent crisis because of the rise in the price of oil.

□ In the oil-exporting countries the process of industrialisation in the seventies brought about a lasting improvement in conditions for growth and partly also for development. However, the massive investment drives and strong tendency towards consumption have led in many of these countries to an overstraining of traditional social structures. Many of these countries, moreover, are situated in unstable regions.

### **Stabilisation Policy**

In both these sub-groups a difficult process of adaptation and restructuring will be necessary. Although these key countries' chances of reducing development risks primarily under their own steam are better than those of other developing countries, the traditional economic and social approaches and models are insufficient, even in these countries, to ensure a dynamic process of growth and development. Stabilisation policies will instead have to be based on the following considerations:

□ Experience to date shows that industrialisation and exports are not in themselves sufficient to solve the central social problems of the key countries, in particular the problem of absolute poverty. The effects of the market mechanism have proved to be extremely one-sided especially in conditions of high economic growth and substantial exporting success over a protracted period. The main reason for this is that, in contrast to the situation in the industrialised countries, the market mechanism is not, or virtually not, corrected by way of general legislation, public social services and social legislation in favour of disadvantaged groups, by policies in favour of certain sectors (agriculture) or sensitive industries or poorer regions, or by policies to reduce the effects of growth on the environment. This is one of the main reasons why international forecasts as

to the development prospects of the developing countries at the beginning of the eighties are so gloomy<sup>3</sup>.

□ The risks of social changes must be rated particularly high in the case of key countries where the adoption of the Western growth model and of a corresponding lifestyle clashes with seemingly incompatible social traditions, and where political movements can base themselves on systems of social values which – for instance within the framework of “Islamic revival” – can easily be turned against the West. Such diverse key countries as China, Mexico, Iraq and Algeria have shown that a mobilisation of the broad masses in favour of a modern model of growth and development is possible only by way of the acknowledgment and promotion of the independence of local social patterns.

□ No major break-through in the development of alternative energy technologies is in sight; the energy supply will continue to be tight and costly. Corrections of growth strategy are imperative above all in the oil-importing countries in the process of industrialisation. Only less energy-intensive industrialisation models can lead to substantial energy economies. The world-wide proliferation of the Western consumption model is therefore subject to strict limits also because of the energy problem.

□ There is a growing disproportion between the productive capacity of a small group of developing countries which are exporters of manufactured goods and the adaptability of the industrialised countries; this gives rise to protectionist tendencies. Export-oriented industrialisation strategies, therefore, no longer provide many developing countries with adequate opportunities for growth. This is particularly true since, at least until 1985, the demand for imports in the Western industrialised countries will no longer grow at the same rate as in earlier years.

Although the stepping-up and diversification of exports of manufactures to the industrialised countries will continue to be important growth factors for a number of key countries (South Korea, Brazil, Argentina, Colombia, etc.), stabilisation policies even in these countries will, for the reasons mentioned above, have to

proceed from the realisation that the dynamics of the industrialisation process will increasingly be determined by policies aimed at the expansion of the domestic market. Those countries where land reform, income reform and social reforms did not accompany the onset of the industrialisation process, as they did, for instance, in China, South Korea and Taiwan<sup>4</sup>, i.e. above all the key countries in Latin America, Africa and Southern Asia, are now compelled to catch up on such reforms with a view to expanding the domestic market.

Such an “inward adjustment”, which is now becoming necessary in view of the changing international economic situation, might at the same time tackle effectively the sectoral, regional and especially the social deformations which have arisen in many key countries because of the one-sidedness of their growth strategies. Structural policies in favour of a usually neglected agriculture, opposed to the exceedingly strong (and economically undesirable) tendency to urban concentration as well as in favour of the large population groups which in the present crisis are getting even poorer, are the more important as the group of key countries also embraces the most important potential herds of social crisis in the Third World due to the existence of absolute poverty and the increasing disparity of incomes.

### Intensification of Regional Cooperation

An indispensable prerequisite for the stabilisation of the key countries, moreover, is an intensification of existing trends towards economic and political regionalisation in the Third World:

□ Intraregional economic cooperation is increasing rapidly in such areas as Latin America and South East Asia. The broadening of interregional relations among the developing countries, on the other hand, has so far been left to only a few key countries (Brazil, India). Even though an increased orientation of the manufactures-exporting countries towards South-South relations will not solve the fundamental problems of integration in the international economy, it is nevertheless an important prerequisite of mutually advantageous trade between developing and industrialised countries and, during a transitional phase, eases the pressure on the markets of the latter.

□ Political regionalisation will relieve the pressure on international politics to the extent that direct involvement of the industrialised countries in the developing regions can be excluded. On the other hand,

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<sup>3</sup> Cf. e.g. J. Tinbergen et al. (eds.): *Reshaping the International Order. A Report to the Club of Rome*, New York 1976; OECD: *Interfutures, Facing the Future*, Paris 1979; IMF: *World Economic Outlook*, Washington 1980; World Bank: *World Development Report 1980*, Washington 1980; Report of the Independent Commission on International Development Issues under the Chairmanship of Willy Brandt: *North-South: A Programme for Survival*, London, Sydney 1980; G. O. Barney et al.: *The Global 2000 Report to the President. Entering the Twenty-First Century*, 2 Vols., Washington 1980.

<sup>4</sup> Cf. e.g. Richard Jolly: *Redistribution with Growth: Some Country Experience*, in: Hollis Chenery et al.: *Redistribution with Growth*, Oxford University Press, Thetford, Norfolk, 1974, pp. 253-290.

the friend-foe patterns of East-West politics, transferred to relations with the South, only aggravate the accumulation of problems in the Third World. If the industrialised countries were to confine themselves to measures aimed at a short-term economic-financial and political-military stabilisation in developing countries this would obstruct those very processes of social transformation which in the developing countries – and indeed also in the industrialised countries – are the prerequisites and conditions for growth and development.

The industrialised countries should, within the framework of development cooperation, give greater support than hitherto to the development within the Third World key countries of concepts and policies which are apt, at least, to mitigate their most pressing social problems and reduce the enormous external pressure to conform. Such support should proceed from the realisation that the most important precondition of a successful struggle against hunger, poverty and population growth is the implementation of indigenous strategies tailored to the specific conditions of each country.

#### **Increasing Negotiating Strength**

Thanks to their resources of raw materials and their capacity for industrialisation the key countries have become a strategically important grouping for the world economy. Their industrialisation makes them a growing market especially for the capital goods industries of the OECD countries. Since the industrialisation of the key countries is not exclusively export-oriented their demand for manufactures will for some time ahead not be matched by an equally large supply; their import requirements are financed mainly from the revenue from exports of raw materials (the oil countries) or through international credits (the non-oil countries).

Trade in manufactures with key countries therefore entails positive employment effects for the industrialised countries, though these will of course diminish to the extent that the key countries reduce their import surpluses in manufactures through increased exports of manufactures and possibly achieve export surpluses. The heavily indebted non-oil countries are already forced to make increased export promotion efforts, but many raw materials industries at present being built up in the oil countries are likewise forced to export in order to benefit from economies of scale.

The industrialised countries will therefore find themselves facing an increasing necessity to adjust, and this will involve an ever-greater range of industrial restructuring. The industrialised countries will be unable

to escape this necessity, especially since the key countries, thanks to their increased negotiating strength, are now able to maintain their international economic interests even against the interests of the industrialised countries.

Whereas the smaller export-oriented developing countries have so far been virtually unable to resist the increasing protectionism of many OECD countries because they lack sufficient power, the key countries have at their disposal, in trade disputes with industrialised countries, a far greater power to retaliate. Their governments, as the major national customers for industrial projects and other supplies of capital goods, are in a position to use their orders as instruments of pressure against any protectionism on the part of the OECD countries. Thus India made its order of Airbus from France dependent upon a liberalisation of French import policy vis-à-vis Indian textiles<sup>5</sup>. Indonesia, in a protracted textiles conflict with Britain, has similarly been able to achieve more favourable textile quotas. Without such concessions British industry would have had little hope of participating in the growth of the Indonesian market<sup>6</sup>.

#### **Government Participation**

The central role of the state in controlling the industrialisation process is reflected also in the increased controlling capacity exercised by governments and state institutions vis-à-vis direct foreign investments. New investment legislation, improved model contracts and an efficient administrative infrastructure for the promotion and simultaneous monitoring of individual projects make it possible for foreign investments to be integrated into the industrialisation strategy entirely to the advantage of the recipient country<sup>7</sup>. The negotiating strength of the governments of major host countries vis-à-vis foreign investors has, moreover, increased as a result of the intensified competition between US, European and Japanese enterprises for access to the promising growth markets.

The increasing negotiating strength of the key countries is finally reflected in the fact that they are making an extension of trade and of industrial-technological cooperation with OECD countries increasingly dependent on the conclusion of

<sup>5</sup> Cf. "Le Monde", March 21, 1979, p. 21.

<sup>6</sup> Cf. "Financial Times", Jan. 1, 1981, p. 4.

<sup>7</sup> Cf. S. Laill, P. Streeten: *Foreign Investment, Transnationals and Developing Countries*, London 1977; R. D. Robinson: *National Control of Foreign Business Entry. A Survey of Fifteen Countries*, New York, etc. 1976.

comprehensive trade and cooperation agreements. This applies in particular to oil-exporting key countries.

These countries are compelling the oil-dependent industrialised countries to conclude comprehensive cooperation agreements under which oil supplies are traded for the transfer of technology. The nationalisation of oil production on the part of the producer countries also compels the governments of the user countries to become increasingly involved in the national oil supply system. Quite a few OECD countries, especially France, Spain, Greece, Portugal and Japan, already complete arrangements for a considerable part of their oil imports under government participation<sup>8</sup>. The prerequisites of a new type of inter-governmental cooperation agreement have thus also been fulfilled on the part of the purchasers.

Japan in particular has introduced, in its relations with certain major oil countries, new models of long-term government-backed group investment for major industrial projects (large-scale petrochemical complexes) in order to safeguard its particularly threatened supplies of crude<sup>9</sup>. These models, as indeed also the German discussion on the issue of arms supplies to Saudi Arabia, reflect the real loss of power suffered by the OECD countries vis-à-vis the key countries.

### Response to the Challenge

The key countries' strategy of enforcing their international economic interests by way of bilateral negotiating mechanisms including political pressure has added further impetus to the general process of politicisation of international trade relations, a process which has been observed for some time in relations among OECD countries. Thus the range of industrial policy instruments has been further developed in most OECD countries with a view to promoting the international competitiveness of individual industries and at the same time to shielding less competitive industries from import competition. The old rules of the game are being increasingly undermined by new forms of indirect import control or export promotion. This leads not only to an aggravation of trade-policy conflicts with the "newly industrialising countries", but within the OECD countries, too, the conflict potential has been increasing and becoming more difficult to regulate through traditional institutional channels.

Nevertheless the OECD countries during the seventies counteracted the danger of international economic disintegration – a danger stemming from the superimposition of power-backed bilateral models of conflict resolution upon the multilateral market

economy system of rules – by an increased measure of intergovernmental economic consultation and cooperation amongst themselves. In this way the mistakes of a selfish foreign trade policy, which led to the world-wide economic slump of the thirties, have so far been largely avoided.

On the other hand the developing countries which are of strategic importance to international economic stability have not yet been included in the new forms of "international economic management" which have developed among the OECD countries at various levels. On the contrary, the regular "economic summits" of the principal industrialised countries have essentially been aimed at meeting the economic challenges from certain developing countries – in particular the oil countries – in a manner acceptable to the OECD countries.

Thus an attempt was made after the first oil crisis to fight the international economic recession by means of an expansionist fiscal policy and by the extension and institutional backing (IMF) of the international recycling of oil revenues to the non-oil developing countries. Although this global stabilisation of demand avoided a further spread of protectionism, the debt-financed demand management of OECD and developing countries further fuelled world-wide inflation so that in 1979/80 the oil countries were able to achieve a further doubling of oil prices.

The second oil price increase has made it clear that the OECD countries can no longer postpone a structural adjustment to the changed international economic framework. The distributional conflict between North and South, headed by the oil countries, would accelerate world-wide inflation even further. The OECD countries have to conserve even more energy and speed up their industrial restructuring if they hope to meet the challenges which will be presented to them in the eighties, mainly by the key countries.

### The Industrialised Countries' Strategy

The question is by what economic strategy the OECD countries hope to achieve the necessary structural adjustments. At present a strategy is gaining support by which the OECD countries attempt to solve the problems under their own steam and, if necessary,

<sup>8</sup> Cf. J. H. Mohnfeld: Structural Changes in World Crude Oil Trade. Increased Government Involvement and Implications for Consuming Countries, in: *INTERECONOMICS*, No. 1, 1980, pp. 3-10.

<sup>9</sup> T. Ozawa: Japan's New Resource Diplomacy: Government-Backed Group Investment, in: *Journal of World Trade Law*, No. 1, 1980, pp. 3-13, as well as Y. Eguchi: Japanese Energy Policy, in: *International Affairs*, No. 2, 1980, pp. 263-279.

against the interests of the developing countries. An attempt is being made to check inflation by a restrictive monetary and fiscal policy, and it is hoped that a deregulation of the markets will result in an improvement of industrial competitiveness.

Part of the costs of adjustment under this strategy will be borne by the industrialised countries themselves in the form of the acceptance of recession and high unemployment<sup>10</sup>, but a substantial part will have to be assumed by the developing countries:

- Their debt burden is becoming increasingly crushing for the oil-importing countries, not only because of the higher oil bills but also because of high interest rates. Simultaneously, their chances of reducing those debts by intensified exports are diminishing because import demand in the OECD countries is no longer growing at the former rate, due to the recession.
- The oil countries, too, will be affected by the stagnation or decline in the demand for oil. The OPEC cartel will be weakened and the negotiating strength of each individual oil country in bilateral relations with user countries will decline.

This strategy entails considerable risks both to the OECD and the developing countries: socio-political conflicts in the industrialised countries, economic and hence political instability in many developing countries. The strategy would become counter-productive if, because of such risks and because of increasing uncertainty about medium-term international economic prospects, entrepreneurs' propensity to invest were to remain low world-wide. In that case the upturn in growth expected by the champions of this strategy would not materialise – an upturn which is expected to solve both the international economic financing and the structural problems at the same time.

### Advantages of Cooperation

In view of the international economic and political risks attending this strategy of confrontation an alternative strategy of risk minimisation should aim at a global equalisation of advantages between industrialised and developing countries by means of an intensification of cooperation at various levels. This would proceed from the expectation that only a de-escalation of the distributional conflicts between industrialised and developing countries and a gradual overcoming of international economic structural

problems – energy conservation and industrial restructuring – can, in the long term, lead to a lasting containment of world-wide inflation.

In view of the increasing complexity of relations between industrialised and developing countries and of the heterogeneity of the developing countries such a strategy of cooperation would have to begin at different levels simultaneously.

At the bilateral level the OECD countries have already met the demands of certain key countries for comprehensive cooperation. The intensified export competition between the industries of the USA, Europe and Japan for markets which are no longer expanding as rapidly as before results in ever new forms of state support for exports and flanking support by the public authorities for the international activities of domestic enterprises. In this rivalry for export advantages in the markets of the key countries the advantage lies with those OECD countries whose traditionally greater measure of centralisation of foreign trade activities is closest in line with the type of cooperation favoured by the key countries – that entailing overall responsibility on the part of the state.

But for the other OECD countries, too, it is possible to list a number of general advantages of the integrated model for cooperation with key countries:

- In foreign policy terms a comprehensive intergovernmental cooperation agreement emphasizes the partner's presence in the key country concerned with greater clarity; this is particularly true in comparison with the cooperation practised by the Eastern Bloc, whose propaganda effects are often considerably greater than would be justified by their substance.
- Cooperation agreements can contribute to a greater permanence of economic relations with a key country. For the enterprises of the OECD country the medium-term export and direct investment prospects can be more readily calculated. This consideration gains in importance with the scale of the industrial projects engaged in with key countries.
- Cooperation agreements provide opportunities for continuous contact between the economic administrations of the two countries at various levels (joint committees). This encourages the hope that, below the level of the multilateral North-South negotiations which are largely deadlocked by political slogans, it should be possible to achieve a certain rapprochement of points of view, initially with regard to soluble specific problems and progressively also with regard to more general problems of bilateral economic

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<sup>10</sup> The OECD envisages a total unemployment of 26 million in the OECD region in the second half of 1982. Europe is expected to have an unemployment rate of over 9 %. OECD: Economic Outlook, No. 29, July 1981, p. 6.



relations. Moreover, it would presumably be possible to identify developments apt to lead to crises in the partner country at an earlier point in time.

### Conclusions

At the bilateral level relations with key countries – the most important group of countries for the solution of international economic problems – should be further extended and improved. At the centre of interest should be the problems of the industrial development of the key countries and the gradual adjustment of industrial structures in the OECD countries with a view to the avoidance of trade-policy conflicts.

At the interregional level the danger of a counterproductive rivalry among the EC countries for advantages from cooperation with key countries should be contained by a gradual communalisation of the EC countries' cooperation policy. Simultaneously the EC, by intensifying its relations with the regional associations in the Third World, would have to strengthen their conflict-easing function for international economic stability.

At the same time the multilateral level continues to be important in the North-South dialogue. An intensifying of cooperation at the other levels may well result in an easing of pressure at the multilateral level and in a concentration on essential problems concerning all industrialised and developing countries to an equal degree. This applies above all to global environmental and resource management which, according to the latest findings<sup>11</sup>, must be intensified if the incipient disastrous trend of development is to be halted.

Finally, a cooperation strategy would have to be provided with domestic backing in the industrialised countries by way of the arousing or improving of the understanding of international economic considerations and for the justified demands of the developing countries. Only thus can the domestic political consensus which is indispensable for a smooth adjustment process be preserved. Admittedly such consensus could only be achieved if the financial strength of the OPEC countries were to be involved in a world-wide development programme.

<sup>11</sup> Cf. G. O. Barney et al., op. cit.

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## STRUCTURAL POLICY

# Adjustment to Changing International Conditions

by Heiko Körner, Darmstadt\*

**The structural changes in the world economy have made themselves increasingly felt in the Federal Republic of Germany over the past few years. For the first time since 1965 there is again a current account deficit, since merchandise trade is no longer able, due to the worsened terms of trade, to finance the traditional deficits on services and transfers. What policy should the Federal Government follow in order to help German industry adjust to these changes?**

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**T**he worsening of West Germany's external position is due to the fact that oil and raw materials producing countries have, since the early seventies, been making increasing demands on the national product of the consumer countries and have moreover, through increasing prices, succeeded in getting these demands met. In consequence the scope for distribution of the national product in the Federal Republic has diminished. With unchanged demand on

the part of the major domestic groups this leads to a diminution of the Federal Republic's monetary competitiveness. As a result, the West German economy's indebtedness to foreign countries is growing.

This would give no cause for alarm if one could be sure that, in the course of time, the allocation of domestic resources would adjust to the new international conditions of competition without appreciable difficulties. All that would be needed in that

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