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Western Aid and Trade Policy Trends

by Siegfried Schultz, Berlin*

The Third Development Decade of the United Nations opened with a promising outlook for the developing countries. The economic situation of the OECD countries had improved during 1979 and the "North-South dialogue" seemed to be making progress. But the further course of 1980 and the subsequent years revealed that the extent and long-term effects of the slump in world economic activity had been seriously underestimated. A large number of developing countries continue to be heavily dependent on development aid. The following article outlines current trends in aid and the likely prospects for the future.

The volume of concessional flows, e.g. development assistance proper (ODA), amounted to a good US \$ 37 billion net in 1980 from all sources (at current prices). Due to the recessive trend in overall economic activity and the US dollar being the reporting currency in the overall balance this figure came down to slightly below US \$ 34 billion in 1983. In constant (1982) prices the slump is somewhat less pronounced – from US \$ 35.3 to 33.8 billion. Almost four fifths of these flows go through bilateral channels.

The amount provided by Western industrialised countries – or, to be more precise, the aid-giving among the OECD-countries, the so-called Development Assistance Committee (DAC) group – on a bilateral basis remained fairly stable; in fact, speaking in relative terms, within three years' time their share even went up by 10 percentage points.

Comparing absolute amounts with regard to individual donor countries (cf. Table 1), the USA regained some importance as a donor in 1982. It registered a cut in expenditure in 1983 but still holds the leading position with a share of a little over 20 %, followed by Saudi Arabia, France (including overseas territories), Japan and the Federal Republic of Germany. The poor 1981 US performance was due to the fact that Congress had been slow to approve contributions to multilateral agencies. The subsequent recovery is partly explained by the allocation of funds originally intended for previous years.

In relation to nominal gross national product there is no clear trend in the level of development aid disbursements between 1980 and 1983: while a few industrial countries still were able to genuinely push up this ratio by expanding their aid budget, others had a

numerical increase due to the contraction of the GNP. The aggregate picture is being affected by the moderate United States performance. Outside the OECD area the ODA/GNP ratio – with the exception of Kuwait – was also on the decline or stagnating on a low level. Under these circumstances the DAC Secretariat does not maintain in its most recent annual report the assessment¹ that the overall ratio (0.36 % in 1983) will remain approximately the same over the next few years. The target of 0.7 %, at one time envisaged for 1985, will not be achieved by the majority of donors in the foreseeable future.

Besides development assistance incorporating grant elements, there is a rising share of private (non-concessional) resource flows to developing countries. However, official financing remains the major element of total resource transfers.² Within these official flows, non-concessional finance, including export credits and guarantees and non-concessional multilateral development lending, has gained in relative importance, while the share of concessional aid has declined. Overall, therefore, in the case of both private financing and official financing, it is the flows with higher servicing costs that have increased most – which necessarily has a bearing on the structure of external debt.

Recent Trends

For a number of years, discussions have centred around a number of subjects in national aid administrations, between bilateral partners of cooperation, and in international forums. The main features were as follows: in some OECD countries there is political controversy about the proportion of aid that

* German Institute of Economic Research (DIW).

¹ OECD: Development and Co-operation, 1983 DAC Review, Paris 1983, p. 78.

² OECD: Interdependence and International Economic Reform: Concepts and Realities, PRESS/A (84)20 (April 9, 1984), p. 10.

NORTH-SOUTH RELATIONS

should be directed through *multilateral* channels. The most common objection to payments to international organisations refers to the use of the money not being subject to sufficient control. Moreover, as the critics say, big bureaucratic organisations are created or promoted by these payments, the administrative bodies of which use too much of the aid money for themselves. Also the efficiency of the multilateral organisations is allegedly not very high. Bilateral payments are favoured in many cases due to the higher political benefit (particularly to foreign policy) for the donor country which arises in the

case of this type of aid. On the other hand, the recipient countries stress the importance of multilateral payments in that they make possible projects that exceed the capacity of individual donors; furthermore, the recipients have, through their representatives in the multilateral organisations of the UN group, a greater influence on the distribution of funds.

The DAC Secretariat, the monitoring aid agency of the OECD countries, notes as one of the positive aspects of multilaterally disbursed aid the fact that the needs of the poorer countries are promoted to a

Table 1
ODA, Absolute Amounts 1970-1983
Million US Dollars, 1982 prices and exchange rates¹

Net disbursements

	1970	1975	1980	1981	1982	1983
DAC countries						
Netherlands	622	862	1 360	1 495	1 472	1 258
Norway	117	288	473	461	559	608
Sweden	272	748	770	802	987	838
Denmark	163	262	395	381	415	404
France (incl. DOM/TOM)	2 535	2 762	3 353	3 868	4 034	4 058
France (excl. DOM/TOM)	1 621	1 693	1 994	2 400	2 627	2 660
Belgium	293	449	432	505	499	507
Germany	1 646	2 270	2 923	3 107	3 152	3 241
Australia	662	841	723	641	882	787
Canada	804	1 347	1 240	1 278	1 197	1 350
United Kingdom	1 545	1 693	1 675	2 037	1 800	1 756
Finland	21	70	104	132	144	163
Japan	1 463	1 785	3 199	2 864	3 023	3 562
Austria	33	116	152	219	235	160
New Zealand	39	106	72	65	65	66
Switzerland	131	179	237	245	252	318
United States	7 022	6 788	8 252	6 125	8 202	7 670
Italy	372	271	597	657	811	805
Total DAC	17 740	20 836	25 958	24 881	27 731	27 550
Other OECD	—	—	189	270	278	118
OPEC countries						
Saudi Arabia	452	4 151	5 601	5 542	4 028	3 936
Kuwait	386	1 425	1 074	1 129	1 168	1 000
U.A.E	—	1 575	857	794	402	101
Qatar	—	509	254	245	50	22
Iraq	10	324	724	137	9	—3
Other	191	1 412	528	494	234	448
Total OPEC	1 039	9 396	9 038	8 341	5 891	5 504
CMEA countries						
USSR	2 097	1 919	1 999	2 378	2 327	2 461
GDR	81	79	170	203	196	161
Eastern Europe, other	436	276	337	329	337	332
Total CMEA	2 614	2 274	2 506	2 910	2 860	2 954
Other Donors	—	—	229	206	202	203
Total above	21 393	32 506	37 920	36 608	36 962	36 329

¹ Individual countries are deflated by the GNP Deflator. Total DAC represents the addition of real ODA from individual countries.
Note: 1970 and 1975 data exclude administrative costs for all countries with the exception of the United States. DAC countries are ranked according to their performance vis-à-vis the GNP target in recent years
Source: OECD: DAC Review 1984, p. 208.

noticeably higher degree than with bilateral aid; at the beginning of the 1980s, 90 % of multilateral aid went to countries in the lower income groups. The Secretariat assumes that this rise could compensate for the tendency of bilateral aid to reduce its support for, except for LLDCs, the poorer countries in general during the 1970s.

In terms of aid effectiveness there is a long discussion whether multilaterally distributed funds are preferable to bilateral ones. While most donors maintain the position that bilateral flows are more efficient in economic terms, the recipients point to the better linkage with their national development efforts and to a higher real value of this kind of aid due to the diseconomies of tied aid. A more constructive approach might be to foster those multilateral institutions that, like the World Bank, admittedly operate in a fairly efficient manner.

With regard to the *terms* of official development assistance, which are characterised by several components, the performance over time is not very well documented in a number of countries. This hampers attempts to produce an aggregate picture. However the following details are worth mentioning:

□ The overall *grant element* had been at a high level for a number of years. This was to be attributed above all to the considerable proportion of outright grants. Certain countries (like Australia, New Zealand, Norway and Sweden) have distributed their official aid exclusively in the form of grants. On average, the DAC countries as a whole were able to keep the grant element above the DAC norm (86 %) and to raise it slightly during the past years (1983: 91 %). (With regard to loans, conditions could not be shielded from the world-wide rise in interest rates. Thus the average grant element of loans slipped from 64 % (1980) to just under 57 % within three years.)

□ From the middle of the 1970s onward, some donor countries have complied more closely with the wish of many developing countries to receive *longer-term commitments* to allow the improvement of their longer-term planning. In this way, the Scandinavian countries as well as Australia and Canada were able to commit themselves financially from three years to about five years in advance. This approach is applied vis-à-vis so-called "programme countries", i.e. to those partners with whom there already exist quite intensive relations. It must be added, however, that a purely statistical comparison ignores differences in countries' budgetary laws. This means that earnest efforts of more administrations in Western countries to make long-term commitments can only be effective after detrimental budget rules have been changed.

□ *Tied aid* is an instrument of aid allocation that is fairly well covered by data in the area of formal tying: recently, rather more than half of all concessional funds (bi- and multilateral) from all DAC countries was not formally tied to the purchase of goods from the donor country. The leading countries in this respect were – short of Denmark – the Scandinavian countries. In view of the move towards greater commercialisation of development aid that is now observable in several industrialised countries, it became evident that the moderate trend towards reducing the procurement restrictions was being reversed and more stringent rules being applied. The impression now is that, in view of the overriding employment problem in donor countries, aid in future will be even more closely linked with procurement obligations. It may very well be the case that a positive impression will still be gained from official statistics, whilst at the same time the growing economic pressure of some donors to open or keep open export channels for their industries is resulting in various forms of informal tying of aid.

For the distribution by *groups of countries* there is a consensus amongst the DAC countries that official development aid should primarily be directed to the most needy countries, i.e. the LLDCs. Every member country is called upon to set its priorities accordingly, if it has not already done so. Complementary to a preferential treatment of the most backward countries is a discrimination against newly-industrialising and OPEC countries. However, realistically it must be added that a greater regard for the most backward countries will – under the side condition of stagnant budgets – be affected by distributional decisions taken with regard to geo-political aspects, which necessarily limits the financial scope for development policy proper, i.e. focusing attention on countries and groups of people in the lowest income brackets.

The majority of DAC countries distribute the greater part of development aid in the form of project aid. In recent years, the case has been argued for increased use of *programme aid* (or: non-project aid, i.e. commodity aid, food aid, retroactive terms adjustment, balance of payments or budget aid, as well as humanitarian aid) especially as it speeds up the flow of funds. Figures do not show, however, that the programme aid proportion has risen on the average for DAC countries. In actual fact it has fallen for several years which, on the other hand, is quite in line with a rising inclination to tied aid.

The debate about project versus programme aid had become particularly topical when the "pipeline problem"

became an obstacle to higher budget appropriations for development policy. Furthermore, the insufficient absorptive capacity of recipient countries is being discussed more and more in a wider framework of causes. Included in these are the DAC countries' ways and means of allocation. In this context it has been argued that the flow of committed funds could be accelerated through a liberalised allocation practice – a move which in fact would make sense with reliable partner organisations but which presently runs counter to tightening parliamentary control and auditing procedures.

The pace-setter with regard to the strategy of higher programme aid is still the Scandinavian group of countries. The large donor countries are behaving rather more conservatively: the USA, although it has a tradition of formulating detailed country programmes, is bound by law to tie funds to projects subject to Congressional approval. France does not indicate how much, or to whom, programme aid is granted. The volume of funds allocated in this category by the Federal Republic of Germany has increased following the abandonment of a previously tight definition of

programme aid. On the other hand, Japan is an advocate of project aid, and prefers to use non-project aid only in exceptional cases.

In the field of *finance* it is likely that mixed credits, as well as cofinancing and interest subsidies will remain an important instrument, because declining exports and rising unemployment will in future even more strongly motivate some Western industrial countries to use part of their ODA funds for a de-facto cheapening of private export credits, thereby creating a competitive advantage for their exporters in foreign markets. The United Kingdom is a good example in this respect with its "Aid and Trade Provision Act", which illustrates a frank endorsement of mixed credit packages. This trend towards commercialisation of development aid, at one time euphemistically referred to as "mutual interests" in the DAC chairman's report,³ will probably continue in industrialised countries for as long as open

³ OECD: Development and Co-operation, 1979 DAC Review, Paris 1979, p. 117.

⁴ Uta Möbius and Dieter Schumacher: The import of industrial products from overseas. Study prepared on the occasion of the 17th overseas import fair "Partners for Progress", AMK Berlin 1979, p. 4.

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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

or concealed forms of export promotion are popular in times of incisive structural change and persistently high unemployment; they are complementary to import protectionism.

Trade Policy

In recent years various rigidities in labour, product and capital markets have developed in Western industrialised countries. There is a growing inclination of governments to intervene in the market system in a direct way in an attempt to influence employment, incomes, investment, and trade flows. This tendency is observable particularly in the situation where, especially in Europe, unemployment is high and investment has not been sufficiently productive. In addition, there are serious conflicts in international trade relations. The developing countries have been adversely affected by these tendencies, even though the main conflicts and consequences have arisen between industrialised countries.

Without doubt it is, at present, a prime challenge for the international community to address and arrest this situation and to prevent further deterioration. In all countries, the emphasis should be on increased flexibility and responsiveness in economic structures, and on continuing adjustment policies, rather than on direct intervention. It must be recognised that protectionist measures anywhere in the economic system tend to strengthen protectionist pressures somewhere else by provoking retaliation, of which the ultimate outcome will be to the detriment of the weaker partners in this game. Thus trade policies ought to be more explicitly related to the wider economic and development context.

As the recession has worsened and as competition from developing countries, in particular some of the NICs, has sharpened, the industrialised countries have made their systems of preferential market access (GSP) more restrictive for those countries that had benefitted most.⁴ Similarly, in the Multi-Fibre Arrangement (MFA) by which world trade in textiles and clothing has been controlled for more than a decade, the extent to which Third World suppliers are permitted to penetrate industrialised countries' markets has been gradually reduced. In actual fact, in the 1982-86 MFA the European Community's dominant suppliers even had to accept cuts in certain exports if they were labelled "sensitive" for the import market.⁵ But the MFA is only the tip of the protectionist iceberg. Devices to cut back

imports of manufactures have mushroomed in a number of sectors. The measures are mostly creations circumventing GATT rules, thus forming an uncontrolled "grey zone" (e.g. respect of minimum import prices, voluntary restraint agreements, orderly marketing arrangements, organized free trade, etc.).

"It is difficult to calculate the extent of the negative effect on Third World exports of these protectionist measures. For (even) if one can monitor the flow of goods subject to restrictive barriers, it is virtually impossible to assess what their volume would have been had the limitations not been put into place. Given the persistence of the recession and the relentless rise in unemployment levels in the advanced nations, it is unlikely that protectionist pressures will abate in the foreseeable future".⁶

But it is quite understandable if trading partners ask for stable access to export markets. Without secure markets for their goods, and a conviction that trade opportunities are expanding in areas where they have a comparative advantage, developing countries would find an outward-looking approach risky to maintain – an approach being suggested to them for sharing the advantages of the international division of labour. Thus the industrial countries have some important obligations⁷: to avoid arbitrary and discriminatory use of safeguard actions – which tend to come into force just where developing countries are most successful in competing; to strengthen the pace of their own structural adjustment out of areas of declining comparative advantage; and to refrain from using subsidies that unfairly deny markets to producers in developing countries. The reversal of protectionist trends as well as the relaxation and progressive dismantlement of trade restrictions and trade distorting measures would be the most effective means of enabling Third World countries to earn the necessary foreign exchange to settle old debts and new bills.

EC: Reorientation in Lomé III?

Arrangements prior to the EC Lomé Convention with its signatory states in Africa, the Caribbean and the Pacific (ACP) were devoted to trade cooperation, financial aid and technical assistance. When concluding the first Lomé Convention in the mid seventies, the EC undertook to guarantee export earnings of certain ACP commodities. The STABEX system was the

⁶ Ibid., p. 82.

⁵ Robert Taylor (European Research Associates). *The Third World Today, Cooperation-Development* (Information of the EEC Commission), X/9/1983.

⁷ Emile van Lennep (Secretary-General of OECD): *Strengthening the International Trade and Financial Systems: Problems and Opportunities*. Address to the Trade Policy Research Centre, OECD, PRESS/A (84)1, Jan. 25, 1984, pp. 16 ff.

cornerstone of the Lomé treaties.⁸ The Community accepted to implement a scheme aimed at stabilizing export earnings of partner countries in the case of those "products on which their economies are dependent and which are affected by fluctuations in price and/or quantity" (Lomé Convention I-III). Up to now, financial assistance and the preference system have been the most important tools used. Above all, this has meant largely duty-free access to the EC market, special preferences for a large number of agricultural products, renunciation of the reciprocity principle, and the recognition of the ACP countries as one single customs zone (cumulative origin).⁹

The aggregate figures for commodity trade since 1970 would seem to support the general supposition that preferences have had a positive impact on trade and that the ACP countries have succeeded in gaining higher shares in the international division of labour. Yet a different picture emerges if the pattern of merchandise trading is analysed. In fact, over 80 % of the exports of the ACP countries consist of basic agricultural products and minerals or organic raw materials whose prices on the world market have fallen drastically since 1981, whereas the prices of their main imports have not witnessed a similar decline, if any.

The ACP countries attributed this adverse development of the balance of trade to the following external causes:¹⁰ deterioration of the terms of trade, gradual erosion of their trade preferences, import restrictions for agricultural products, hindrance of imports via non-tariff barriers, and a relative ineffectiveness of the cumulative origin system.

For these reasons, the ACP countries came up with the following demands: a more extensive system of stabilising earnings, better measures designed to avoid sharp price increases for vital imports, and the prevention of any further erosion of the preference system as brought about by both increased cooperation with Mediterranean countries and the worldwide tariff cutting as a result of the Tokyo Round. Other objections raised were as follows: the concept may be acceptable in principle, but the budgetary appropriations are considered to be insufficient and the import restrictions too tight. In addition, monostructures in production are maintained, too little industrial capacity is being built up

and the fact that agricultural produce is going towards exports is jeopardizing the provision of food to the population at home. At the same time, agricultural production is being hampered by EC food aid in the case of cereal and milk products. Finally, the so-called "policy dialogue" may eventually turn out to be a cover-up for political dominance of the stronger partner in this dialogue.

On the other hand, the non-alignment in political terms can be regarded as one of the positive elements of the EC approach; indeed the present 65 Third World signatory countries of the Lomé Convention adhere to quite different political convictions. Both outspoken pro-capitalist and pro-socialist countries participate; so countries like the Ivory Coast as well as Ethiopia or recently Mozambique can be found among the treaty partners. Also, a change in the dominant ideology (as, for example, in the case of Chad or Somalia) does not automatically lead to major changes in the treatment of the country concerned.

With regard to the third agreement, signed in December 1984, the main instruments of cooperation remained roughly the same. The financial volume of the new Convention which will govern these aid and trade relations over the next five years was stepped up by a little over 50 % in nominal terms (cf. Table 2). Taking into account inflation and the addition of Mozambique – possibly also Angola – to the ACP countries this

Table 2
Volume of Financial Resources for
Lomé II and III Conventions
(million ECUs)

	Lomé II	Lomé III
European Development Fund (EDF)		
Grants	2,998	4,860
Projects and programs	2,621	4,360
Emergency aid/refugees	202	290
Interest rate subsidies	175	210
Reimbursable aids	808	1,200
Special loans	524	600
Risk capital	284	600
STABEX	557	925
SYSMIN	282	415
Total EDF	4,645	7,400
European Investment Bank (EIB)		
Own resources for subsidized loans	685	1,100
Article 18 EIB	200	— ^a
Total	5,530	8,500

⁸ For an assessment of its future role see Hamisi S. Kibola: Stabex and Lomé III, in: *Journal of World Trade Law*, Vol. 18 (1), 1984, pp. 32-51.

⁹ Cf. H. Eilsold and R. Hasse: Time for Reorientation in Lomé III?, in: *INTERECONOMICS*, Vol. 19, No. 2 (March/April 1984), pp. 78-83.

¹⁰ *Ibid.*, p. 79.

^a The European Investment Bank may make available additional resources in loans to the ACP countries during the lifetime of the Convention.

Sources: The Courier, No. 89, Jan.-Feb. 1985; IMF Survey, February 4, 1985.

increase should make it possible at least to maintain the real value of the Lomé II financial endowment.

The new Convention seems to attach greater importance to agricultural development, in particular to safeguard a higher degree of national food supply in LDCs. Also, the list of tropical products to which the STABEX system applies has been extended, which will also have some positive implications on the number of beneficiaries. With SYSMIN, the special facility in the field of minerals, the list of products covered is unchanged but the clause to provide for a remedy in cases of serious temporary or unforeseeable disruptions means an alleviation of the problems in additional countries which have a dominant mining sector.

Altogether Lomé III does not have any revolutionary content. The discussions on the touchy subject of the "policy dialogue" could ultimately be defused by explanations and careful wording. Under the catchword of "more aid effectiveness" is supposed to be understood intensified programming and by no means any kind of "conditionality". There are a few new elements (e.g. support of private investment, human rights provision, cultural and social cooperation) but the basic objection of the critics remains: as did its predecessors, Lomé III in principle allows free access to the EC market for almost all exports originating in ACP countries (even the rules of origin have been somewhat liberalized). However, with a few exceptions this generous gesture does not apply to products covered by the Common Agricultural Policy. Wherever there is a seriously threatening supply potential (either in agriculture or in textiles)¹¹ protective devices are being brought into effect. So what the liberalisation within the framework of the Conventions boils down to is by and large an unhampered access for commodities not seriously competing with domestic supply.

Future Prospects

As has been seen, ODA by governments is a vital source of financing for the LDCs, in particular for the poorest countries. According to World Bank estimates, about 40 countries will continue to rely almost entirely on ODA during the 1980s to supplement domestic

¹¹ Cf. Uta Möbius: Was hat das handelspolitische Instrumentarium der Lomé-Verträge den AKP-Ländern gebracht?, in: DIW-Wochenbericht, No. 4/84

¹² See Robert Taylor, op. cit., p. 112.

¹³ OECD: 1983 DAC Review, op. cit., p. 78.

¹⁴ OECD: Development and Co-operation, 1984 DAC Review, Paris 1984, p. 86.

A. PRESENT POSITION OF DAC MEMBERS REGARDING THE 0.7 PER CENT AID TARGET

a) Beyond 0.7 per cent of GNP

Norway	ODA appropriations to represent at least 1 per cent of GNP
Netherlands	Development co-operation budget to continue to represent 1.5 per cent of net national income (of which somewhat more than 1 per cent of GNP for ODA).
Sweden	Aid appropriations to be maintained at a level close to 1 per cent of GNP.
Denmark	ODA appropriations to exceed 0.7 per cent of GNP.

b) 0.7 per cent of GNP for a specific date

France	1988 (DOM/TOM excluded).
Austria	end of the present decade.
Canada	end of the present decade.
Finland	end of the present decade.
Italy	end of the present decade. (or 1988)

c) 0.7 per cent of GNP without date

Australia
Belgium
Germany
Japan
New Zealand
United Kingdom

d) Target not accepted

Switzerland
United States

B. INDIVIDUAL DAC COUNTRIES INTERMEDIATE TARGETS

Canada	Aid appropriations to reach 0.5 per cent of GNP by the middle of the decade.
Italy	The aid budget is to represent the average ODA/GNP ratio of EEC member countries in 1985.
Japan	Japan plans during the years 1981-1985 to extend at least double the amount in dollars of ODA disbursed during the previous five-year period, while endeavouring to increase its ODA/GNP ratio.

Source: OECD: DAC Review 1983, p. 79.

resources.¹² Most of these countries are in sub-Saharan Africa. In some cases it is a matter of mere physical survival. The chances of official aid growing enough to increase its effectiveness, especially in the least developed nations, are not particularly good.

In the presence of the economic and budgetary difficulties encountered by most of the industrialised countries in the Western hemisphere, the DAC Secretariat has scaled down its somewhat optimistic overall forecast¹³ for the main industrialised countries with regard to their aggregate future ODA performance. In the most recent DAC Chairman's Report¹⁴, the previous assessment of an overall growth in real terms has been revised to the statement that recent and

prospective performance seem to be closely linked. In the case of countries which have adopted GNP-related volume targets, prospects depend directly on progress towards economic recovery. A number of countries have made statements on the volume of their future assistance with reference to the 0.7 % aid target; even though these statements do not always use exactly the same criteria with regard to indicators or time scale, they nevertheless outline trends (see box). The group of countries involved here includes Canada, Finland, France, Italy and Japan. Japan's target, though, will probably be extremely hard to achieve because it is expressed in US dollars. The prospects for the aid budget of Austria – also listed among the countries with a volume target – are not too bright due to a possible re-orientation of the programme. The “front-runner countries” as a group (Scandinavia except Finland but including the Netherlands) may be expected to continue to maintain their above-average performance with regard to the ODA/GNP ratio. Some fairly modest contribution may be forthcoming from countries such as Australia, Belgium, Switzerland and New Zealand.

The outlook for the remaining DAC countries – which include some of the largest donors and some of the largest economies – is one of very slowly growing, or possibly even declining, aid in real terms. There are at present no indications to suggest that West Germany's ODA will soon resume the substantial growth rate which prevailed in the last decade. In fact, with an inclination not to raise the multilateral share of aid and with the existing commitment authorisations for the bilateral wing it is rather likely that the overall volume will shrink. Budgetary planning in the United Kingdom implies that, at best, aid is likely to remain roughly static in nominal terms. Only shaky evidence is available as to the future volume of United States aid. Indications concerning the administration's intentions – in line with the Congressional notion on aid – however, point to the possibility that US non-military aid may hardly increase at all in the next few years.

The overall impact of budget cuts on Third World countries could be limited as long as other donor groups were ready to step into the breach opening up between rising demand for external assistance and the actual flows originating in the West. In fact, with almost US\$ 10 billion, the development assistance of the OPEC countries was stepped up again in 1980 after a temporary slump. Due to the backlash in oil revenue, this level could not be maintained since; in 1983 it had slipped to a level of about US\$ 5.5 billion. In comparison to the contribution of the other major non-DAC donor group, the aid volume provided by OPEC countries was

almost twice as much as that of the centrally-planned economies – not to mention the outstanding performance with regard to the ODA/GNP ratio. The aid allocation of the CMEA countries was, expressed in US dollars, modestly stepped up in 1981 and subsequently remained rather stable but made – according to updated Western estimates¹⁵ – a comparatively moderate contribution to the worldwide concessional financial assistance. With 15 % of this total in 1983 coming out of OPEC funds and 8 % originating in CMEA sources the lion's share of about three quarters came from the aid-providing group of the OECD countries.

Under prevailing circumstances, the key to overcoming the current obstacles to providing adequate external financing for Third World development is the extent to which the world economy recovers during the course of the present decade. But even if the recovery is slow or partial, there are a number of side measures which need to be taken: one of them is to prevent inadequate public aid flows and a large-scale reduction of credits. At the same time, it is imperative to resist growing protectionist pressures. “The ultimate insanity is to think that we can ask others to pay their debts to us at the same time that we refuse to buy their products.”¹⁶

Summarizing, it can be noted that changes in the development aid approach in the Western industrialised countries presently mostly relate to matters of procedure and to institutional improvements. The requested priority treatment of the poorest countries, regions and social groups has not yet been consistently established by all donors. Instead, a trend towards an even greater *commercialisation* of aid is to be expected; a higher degree of tying and the extension of mixed credit schemes are proof of this tendency. Presently, the countries of the Third World have little cause to hope that fundamentally new tendencies, in the form of an innovation of development policy, will soon come about. The stagnation of aid payments in real terms may persist for the foreseeable future.

At the same time, even with all their internal economic and social quarrels caused by high levels of unemployment, the Western industrial countries still have the highest economic potential for at least maintaining the volume of external aid and to make their import barriers more penetrable to LDC exports. The decisive element is obviously the motivation for such action and the national benefit it produces. This applies both to economic and to foreign policy considerations.

¹⁵ Cf. OECD: 1984 DAC Review, op. cit., pp. 117-119.

¹⁶ William E. Brock (U.S. Trade Representative) in an interview on international trade, in: The Brookings Review, Spring 1984, p. 28.