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# UNCTAD VII – What is Really at Stake

by Heinrich Dehn, Bonn\*

**The seventh United Nations Conference on Trade and Development will be held in Geneva in July 1987. Heinrich Dehn reviews the issues on the agenda and shows where the policies of the industrialised and developing countries need to be revised.**

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The seventh United Nations Conference on Trade and Development (UNCTAD VII) comes at an inconvenient time for the western industrialised countries, but it is not viewed with much enthusiasm by the developing countries either, since they probably hold out little hope of it producing any great breakthrough in the sense of radical measures or substantial financial transfers from industrialised countries. The lessons of the rather unproductive UNCTAD V and UNCTAD VI conferences are not encouraging. UNCTAD V, held in Manila in 1979, could be judged a success in that it established the Common Fund Integrated Programme for Commodities, although this was really an outcome of UNCTAD IV, and that it laid the groundwork for a programme of action to help the least developed countries (LLDCs). UNCTAD VI, on the other hand, succeeded only in avoiding being a spectacular flop; in Belgrade there was neither an underlying consensus on the world economic situation nor agreement on measures to be taken in particular areas of policy. Even the celebrated Resolution No. 159 (VI) sponsored by the Federal German Government was no more than an impressive summary of previous (and subsequent) avowals of commitment to free trade, which were probably not really taken seriously by most of the participating industrialised countries. The same was broadly true of the resolution on the processing, marketing and distribution of raw materials, which ultimately depends on the willingness of the industrialised countries to accept faster structural adjustment of industries based on primary products that have hitherto been imported unprocessed from developing countries.

Since UNCTAD VI, which based its deliberations on 1982 data, the world economic situation has undoubtedly improved overall and the industrialised

countries will surely cite this as justification for their generally optimistic assessment of the economic outlook. From the point of view of most developing countries, however, the improvements since 1982 have been more modest. Despite a sustained recovery in the industrialised countries, most commodity prices and earnings have remained depressed and protectionist measures and tendencies have continued, notwithstanding decisions in this regard in all the relevant international forums; the debt problem may have been defused in the short run for a number of developing countries and eased generally by the fall in interest rates, but overall it remains far from a true solution, since it has now spread to the USA, further oil exporting countries and numerous LLDCs. Despite predominantly favourable world economic forecasts for 1987, the outlook for the coming months is clouded by serious risks; in particular, how will the USA reduce its large trade and budget deficits and how long will confidence in the dollar be maintained? The upturn has already lasted four years; how soon will it end and what chances will the developing countries then have of servicing their debts by redoubling their export efforts, given the already high structural unemployment in the industrialised countries?

Notwithstanding the greater economic policy convergence the industrialised countries have achieved since 1983 with the aim of generating sustained non-inflationary growth, there is thus little prospect of reaching an assessment of the world economic situation agreeable to both groups of countries. The developing countries have benefited less from the 1983-86 recovery than from previous upturns and have little in reserve to weather a possible further recession in the industrialised countries. For this and other reasons the agenda for UNCTAD VII rightly includes in-depth discussion of structural change as a ground-bass to deliberations on the "traditional" subjects of primary products, trade in goods and services and resources for

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\* Federal Ministry for Economic Co-operation. The opinions expressed in the article are those of the author and do not necessarily reflect the views of the Federal Ministry for Economic Co-operation.

development; the question of the LLDCs also underlies all other issues, but will probably not be discussed in detail, given the mid-term review of the Substantial New Programme of Action for the 1980's in 1985.

### **Effects of Structural Change**

"Structural change" will probably be discussed in narrow economic terms at UNCTAD VII and not in its full sense as development. Even in the past UNCTAD has neglected the development part of its assignment or has defined "development" primarily as economic growth in the developing countries. Institutions such as the World Bank have also tended to take this narrow view. Quantitative indicators of the economic structure (such as industrial output as a ratio to national product or exports) and of the social infrastructure (literacy rates, the number of doctors and hospital beds per thousand inhabitants or the per capita consumption of calories) can do little to modify that view, since identical figures can conceal very different distributions and very different benefits for various sections of the population, whose aims and values (such as self-reliance or participation) are left entirely out of account. That some things are not "in order" can be seen from various indicators of poverty and injustice (such as the number of "absolute" poor, unemployment, persons without a supply of drinking water), even though they cannot provide clear guidelines for "development".

Nevertheless, there are signs that structural change is being recognised as a challenge for both industrialised and developing countries, although it remains unclear to what extent countries are willing and able to meet the challenge themselves rather than expecting others to make the necessary adjustment. It is beyond dispute that various factors such as the advance of "new" technologies, shifts in the structure of demand, the increasing importance of the services sector and international capital movements are affecting the

pattern of comparative cost advantages within and between economies. This continuously generates stimuli for a structural change that is anything but steady or evenly distributed; different sectors and regions are affected differently and have a differing ability to adjust. Structural change provides opportunities for growth, but it also entails economic and social adjustment costs.

For the "developed" industrialised countries with very low population growth and economic ties among themselves determined largely by competition, structural change is an indispensable major source of growth, but at the same time one of the causes of longer-term unemployment and regional imbalance. Shifts in scales of values (with regard to environmental costs, for example) are a factor in structural change and a necessary condition for growth and structural change. Indeed, the pace of structural change and growth is generally limited by considerations such as these as well as intentional and unintentional obstacles, such as protectionism or subsidies that effectively maintain the status quo, and differs widely according to sector and region.

The governments of the western industrialised countries have tremendous influence over structural change, even if they portray it generally as the uncontrollable and unpredictable outcome of micro-economic decisions. The promotion of high technology through armaments programmes is a particularly obvious example, but information technology, telecommunications, nuclear energy, the aircraft industry and biotechnology are being selectively promoted by even the most "liberal" industrialised countries, so that it is as wrong to speak of unfalsified international competition as of abstinence from structural or industrial policies that differentiate between sectors or consciously look to the future. With governments on the one hand holding back from an anticipatory structural policy on principle in view of the

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risks and political consequences if it proved wrong while on the other hand making widespread exceptions to that principle, the result is a conflicting jumble of state intervention that hinders structural change selectively or promotes it across the board or in particular sectors.

Problems are building up in some regions of the industrialised world as a result of structures that have not kept pace with developments, the failure to adjust in the past and the lack of sufficient incentives to fresh initiative. Regional disparities are becoming more marked, even in countries as well balanced as the Federal Republic of Germany. If differentiated deliberate measures are not taken to increase adaptability in the much more unbalanced European Community, the disequilibria will continue to increase and will give additional impetus to protectionism. The ability to co-operate internationally would then decline further.

Promoting structural adaptability implies a domestic development policy in the industrialised countries. The weaker among them do pursue such a policy under various titles and with differing degrees of success. The conditions are undoubtedly better for the industrialised countries as a whole than for the developing countries on account of their broad range of activities and qualifications, sophisticated infrastructure and greater financial strength.

The developing countries are affected by the international trends in structural change to varying degrees, but they are also influenced by internal factors, such as population growth, regional imbalances in population growth as a result of strongly concentrated urbanisation, and massive international migrations caused partly by political problems but also by the economic attractions of employment in rapidly expanding regions. In any case, the developing countries' development policy avowedly means channelling structural change in particular directions, generally to emulate models in the industrialised world or in "more advanced" developing countries.

The diversity among developing countries is tending to increase rather than decline, despite the fact that most of them are striving towards modernistic objectives of a decidedly western hue. Solidarity among the developing countries may often be reiterated on paper, but conflicts of interest between different groups and even within homogeneous groups such as the heavily indebted newly industrialising countries are becoming ever more acute. Semi-industrialised developing countries are regarding the least developed countries primarily as suppliers of primary products, markets for industrial products and already as "bad debtors" in some cases, a carbon copy of the industrialised

countries' view of the Third World. Imbalances are tending to increase rather than diminish even within regional groups. The newly industrialising countries of East and South-East Asia have very successfully captured market shares in finished products in the industrialised countries and the Latin Americans have also been trying to gain a foothold, with varying degrees of success, but the prospects for poorer developing countries that rely on exports of a few raw materials are steadily deteriorating. The LLDCs are falling further behind in the contest with industrialised and newly industrialising countries. It cannot be expected that they will rapidly overcome their disadvantages in the fields of infrastructure, education, technology and financial strength by their own efforts, nor that sufficient resources will be made available from outside sources for this purpose.

### **Crisis in the Commodity Markets**

At UNCTAD VII the desperate situation of many of the poorest developing countries is sure to be blamed primarily on disappointing export earnings and the historically low level of most commodity prices, which have not improved much as a result of the upturn in the industrialised countries. One factor on the demand side is the low raw material intensity of the structural change-related growth in the industrialised countries, whose new-found price stability is based to a large extent on lower prices for oil and primary products. At the same time, both developing and industrialised countries have greatly increased the supply of raw materials, especially agricultural products; whereas the industrialised countries (and especially the EC) have pursued agricultural policies that artificially stimulate the use of modern farming techniques without regard to the high economic costs and poor prospects of selling the produce in already saturated markets, the developing countries have either neglected their farm sector, as in Africa in particular, or have reacted "perversely" to the fall in prices by expanding the supply of agricultural raw materials for export to make good their shortage of foreign exchange, as in the case of Brazil.

The commodity agreements designed to reduce price fluctuations around the market trend can do little in these circumstances. With chronic oversupply and a falling demand trend, it is not even possible to maintain prices at a level that was originally in line with the market, let alone one that allows less competitive suppliers to cover their costs. Even the European Community, with its infinitely greater financial resources and array of protectionist weapons, has been unable to achieve this

in agriculture and is currently endeavouring to curb the inevitable growth of yet more structural surpluses by imposing quantitative restrictions on supply and cutting the excessively high intervention prices. Unfortunately, there is no prospect that the EC will genuinely withdraw from the markets traditionally supplied by the developing countries (sugar and to some extent meat) but which the Europeans captured as a result of protectionism and high subsidies.

The picture with regard to the supply of minerals by developing countries is mixed; many countries, such as Bolivia and certain African states, have failed to make the necessary investment to maintain and rationalise production, whereas others, such as Brazil, have brought new capacity into operation. In addition, the industrialised countries are exploiting substantial low-grade deposits in new capital-intensive plant that are winning market share away from traditional producers in developing countries on account of their lower production costs and market prices.

Realistically negotiated commodity agreements that permit adjustment to the market trend, such as the new cocoa agreement, are thus not entirely pointless, but they can probably only help dampen price fluctuations around a falling trend. Even the first account of the Common Fund, which could perfectly well be activated even without the participation of the USA and the USSR if it were ratified by all the developing countries that have not yet done so, could make no significant difference in this respect.

Schemes to stabilise export earnings, which are more in keeping with free market principles, also provide only decreasing aid to adjustment. The design of the EC and IMF facilities is such that they can serve to improve or sustain the status quo, depending how they are used by the developing countries. However, American attempts to abolish the IMF's compensatory financing facility (CFF) or to subject it to more rigorous conditions on the grounds that it distorts the market are neither correct nor credible, since the CFF also works degressively and is in no way the cause of the poorer developing countries' more limited ability to adjust. Why the CFF is no longer being used as intensively as it was from 1981 to 1983 is somewhat unclear, particularly as the oil-exporting developing countries should logically be among the beneficiaries. Moreover, there are good medium-term prospects of a recovery in the price of the untypical raw material oil, even if the energy and oil intensity of growth in the industrialised countries continues to fall.

In theory, more raw-material-intensive growth in countries in the early stages of industrialisation could

partly offset the decline in sales to industrialised countries, but this would require higher growth in the NICs, which are already shouldering a heavy debt-servicing burden. Unless co-operation among the developing countries improves substantially, these markets will be supplied predominantly by the industrialised countries. In view of the poor overall trend of demand and the unwillingness of the industrialised countries to do substantially more by way of agreements to stabilise commodity prices or export earnings or at least to desist from expanding their raw material capacity, the developing countries only have a choice between keener competition, which would be ruinous for weaker suppliers, and diversification, in other words structural adjustment.

Developing countries that are semi-industrialised or have a more highly developed infrastructure could diversify vertically by processing raw materials for their own markets, for other developing countries and for export to industrialised countries, insofar as the continued virulence of protectionism permits. The large markets of India and China show developing countries a way to reduce external vulnerability.

The "PMD framework" and the "second account of the Common Fund" are programmes developed by UNCTAD to promote the processing of raw materials and the services that go with it, improvements in quality and productivity (mainly by reducing costs rather than increasing output) and the development of new ways to use and market commodities. It is therefore particularly important for the developing countries to ensure that the Common Fund is ratified. Despite the overlap between the PMD framework, the second counter of the Common Fund and existing instruments, the industrialised countries should acknowledge the need for action in this field; the same applies to the demands for structural adjustment programmes in the primary products sector as a variant on the theme of export earnings stabilisation. For this purpose it would also be sensible to review the practice of financing commodity projects from development funds, which has been done up to now to promote exports but without paying sufficient regard to the overall effects on capacity.

If raw materials are being produced at high cost and are difficult to sell on the world market, it would be better to encourage production for the home market that could replace imports at little or no cost disadvantage. An obvious example would be a reduction in the unnecessarily heavy dependence of African countries on imports of food, but there is a host of other products that are simple to manufacture and which developing

countries with a chronic shortage of foreign exchange need not import from industrialised countries.

Such an approach would require closer co-operation among developing countries and a more flexible attitude by the industrialised world towards import liberalisation, which is recommended to the developing countries or imposed on them under structural adjustment programmes.

### **Credibility Test for Trade Policy**

The start of the Uruguay Round of GATT negotiations undoubtedly means that UNCTAD VII will produce no important decisions on trade in manufactured goods and services. Nevertheless, the conference will coincide with the end of the exploratory phase of the GATT talks, so that the trends and any scope for manoeuvre will be apparent. If the major industrialised trading blocs of the EC, the USA and Japan do not soon abandon their practice of introducing further protectionist measures and bilateral arrangements in disregard of GATT, they cannot expect the developing countries alone to fight for the GATT system they themselves have constructed. Many developing countries now want to see a strong GATT that could protect the rights of weaker countries, but the present practice of safeguards and dispute settlement provides only very limited protection.

The developing countries have sharply differing trade interests within GATT, but on certain fundamental issues they could make common cause at UNCTAD VII; one of these will certainly concern the preferences they have won, which will be presented as an endangered "achievement" worth defending jointly. The present situation is inconsistent and contradictory, with tariff preferences for developing countries, partial restrictions for NICs and special privileges for LLDCs existing alongside blatant discrimination against efficient developing countries in the form of non-tariff barriers and borderline measures such as "voluntary" restraint agreements for textiles and manioc. If the industrialised countries were prepared to drop their discriminatory practices that place NICs in a worse position than industrialised countries, the NICs could easily forgo tariff preferences and in turn gradually ease market access in particular for other developing countries, but also for industrialised countries. The demand for market access for industrialised countries in exchange for tariff preferences but without dismantling discrimination against developing countries is dishonest and is unlikely to generate any additional exports for industrialised countries, given the balance-of-payments situation of many developing countries.

To complement their necessarily selective development policy – in other words, their policy on investment and the structure of the economy – developing countries short of foreign exchange also need a selective trade policy that discourages the use of scarce foreign currency for unnecessary imports such as luxury goods. Blanket liberalisation requirements lead to the very opposite to the efficient use of scarce resources, as does overvaluation of the currency, which rightly attracts criticism. This is not to defend a primitive form of protectionism or the developing countries' practice of subsidising unviable activities at will, which did indeed reward inefficiency in the sixties and seventies and which indebted developing countries can no longer afford. What is needed instead is short-term start-up aid for the production of goods and services for which there is an urgent need and which have good prospects of being competitive over the medium term. Increased trade preferences and industrial co-operation among developing countries could increase the scope for such investment. In addition, many developing countries must urgently reduce the heavy reliance of their budgets on highly volatile import and export duties in order to regain their freedom of action politically.

Trade in services is another area of fierce contention between industrialised and developing countries; here too, a sensible compromise must be found between liberalisation that will stimulate efficiency and the hitherto rather neglected development function of various service activities. For example, it cannot make sense from a development point of view to ease the importation of western television series that portray a standard of consumption that is atypical even of industrialised countries, let alone developing ones, or to allow the demand for banking services to be met entirely by the branches of banks from industrialised countries that are not subject to the credit policy of the central bank of the developing country and could suspend operations at short notice. Considerations of regional development and sovereignty also militate against full liberalisation in the transport and telecommunications industries. On the other hand, developing countries are throwing away opportunities if their modern export sector does not include competitive services that can initially be provided mainly by or in co-operation with firms from industrialised countries.

The developing countries already run large deficits vis-à-vis industrialised countries in the services field, so they can obviously not be expected to liberalise service activities further than the industrialised countries, which are much stronger in this field and certainly have no

intention of opening up their labour and contracts markets to all manner of competitive services (such as construction work) by workers and businessmen from the developing countries!

Moreover, a large part of official development assistance can be seen as aid to expand or subsidise the services sector in developing countries, many parts of which are not yet internationally competitive. Few developing countries even have adequate information on their services sector and will proceed cautiously until they have formulated a clear policy in this area.

### **Debt Burden and the Crisis in Development Finance**

Concern about the developing countries' debt burden is not a new phenomenon; it was already being expressed in the Pearson report at the end of the sixties, when debt stood at less than one-tenth of the present total of almost \$ 1,000 billion and only a few developing countries had reached the point considered dangerous, where debt servicing absorbed 20% of their export earnings, and which today is the average level for the Third World and has been far exceeded by African and Latin American countries and even by the oil-exporters. The successful recycling of petro-dollars enabled the non-oil developing countries to borrow, albeit at high interest rates, to finance their increased debts caused by the rise in oil prices. These debts must now be repaid in a situation where oil prices have fallen and the debtors' export opportunities are generally worse than in the seventies. The list of countries with debt problems now even includes some of the oil-exporting countries.

Since all forms of private capital transfer to heavily indebted developing countries (bank lending, export credit and direct investment) are now rapidly declining and in many cases are actually negative, the developing countries are in a true dilemma; many lack the foreign exchange to carry out the agreed adjustment programmes to bring about a growth-oriented solution of their debt problems à la Baker, particularly since imports can often be curbed only by restraining growth, and exports to saturated or partially restricted markets cannot be expanded at will. This is the true heart of the problem, to which the developing countries unfortunately apply the questionable term "negative net resource transfer", which unnecessarily lumps capital flows together with payments of interest and profits on current account and thus makes it easy for the industrialised countries not only to reject the term but also to ignore the true problem.

The fact that the total of interest, profits and debt repayments can exceed new loans and investment in a

given period is not in itself a problem if sufficient foreign exchange is being earned from foreign trade to finance such a reduction in debt, as in the case of some Asian NICs; indeed, it is the declared aim of sensible lending to developing countries that it should be possible to repay loans from the additional foreign exchange earnings they generate rather than from further borrowing. Unfortunately, however, most developing countries do not yet earn sufficient foreign exchange to reverse the flow of capital and their prospects of reaching that level are far from bright; in view of the rather moderate growth the industrialised countries are experiencing, the structural and employment problems they are themselves facing make it unlikely that they will be willing to open their markets sufficiently to allow the more efficient developing countries to achieve the high and lasting current account surpluses they need. Poorer primary producing countries appear to have little chance of reducing their chronic current account deficits, even over the long term. Hence most developing countries will continue to depend on net inflows of capital; these are declining as a whole and in some cases are negative, since private transfers have fallen sharply and official development assistance is increasing only marginally at best.

Even if the industrialised countries are justified in wishing to help solve debt problems only on an individual basis and only under the aegis of the relevant organisations, they will soon be forced to take measures to deal with the "debt overhang". If debtors' foreign exchange receipts will be insufficient to finance vital imports, maintenance and replacement investment for the foreseeable future despite proven efforts at structural adjustment, it is in the interest of creditors to ease the burden of debt servicing considerably, to finance it or to forgo it temporarily or permanently, for otherwise the developing countries' ability to service their debts will not increase but decline. If that is so, the industrialised countries should acknowledge the fact at UNCTAD VII, though without forgetting the need to examine each case on its merits.

In the case of the affected middle and high-income developing countries, official development assistance cannot replace lost inflows of private capital. Private bank loans and direct investment will not flow freely again until these countries' growth and balance-of-payments prospects are again assessed positively. The vicious circle is therefore almost complete. There is still some leeway with the industrialised countries' official export credit guarantees, which until now are refused where country risks are high, even if they are to cover viable investments that could boost growth and improve

the country's debt-servicing ability. This too is against the interests of the industrialised countries!

Many of the poorer developing countries have reached a situation in which an increasingly large share of official development assistance intended for new investment merely serves to sustain the existing infrastructure and manufacturing capacity or even to prevent the population's standard of living from deteriorating further. Countries are in danger of becoming increasingly dependent on aid for survival rather than aid as a means of helping them help themselves.

Both groups of countries face an unwelcome succession of ever more debt rescheduling and structural adjustment programmes, with political costs and uncertain prospects of success. The policy of the International Monetary Fund and the World Bank with regard to conditionality and the "policy dialogue" demanded ever more clearly by the industrialised countries have brought the question of loss of sovereignty by the developing countries increasingly to the fore. The industrialised countries should ask themselves whether insistence on fiscal principles should be taken so far that it leads politically to a kind of recolonisation of the developing countries, with responsibility being borne by the industrialised countries.

### **Is an Honest Policy Dialogue Possible?**

Viewed realistically, the often cited interdependence of North and South entails more dependence of the South on the North than the opposite. Given the weakness of OPEC, the only means by which the developing countries can apply pressure are dangerous to themselves as well. For example, resources flow more freely if a developing country becomes a bone of contention between East and West, but the price it pays is greater one-sided dependence and/or a murderous civil war that could spread to other countries in the region. The possibility of mounting a debt boycott has been considered on several occasions, but so far it has foundered for lack of true solidarity even within relatively homogeneous regional groups. In any case, the smaller developing countries acting alone are hardly a threat to the financial system of the industrialised countries; in the medium term, a debt boycott would undoubtedly exacerbate the developing countries' shortage of foreign exchange.

The fall in demand from overindebted developing countries with declining earnings from primary products is having a tangible effect on exports and employment in

the industrialised countries, and nowhere more clearly than in the USA as a result of the debt problems of Latin America; the industrialised countries also fear the collapse of major debtors, but all they have been prepared to undertake so far is crisis management that consists chiefly of prescribing structural adjustment for borrowers. The industrialised countries could find themselves in serious difficulties if a large number of developing countries actually implemented structural adjustment programmes rather than just giving them lip service, for it would quickly transpire that the industrialised countries cannot or will not provide sufficient resources and are even more unwilling or unable to adjust adequately themselves or to open their markets sufficiently. Since the situation patently requires a blend of efforts at home and assistance from outside, there is a temptation for both sides to withhold their own contribution on the convenient grounds that the matching contribution from the other side is not forthcoming.

This danger also exists for UNCTAD VII and is further heightened by the fact that the Eastern bloc is so overstating the discrimination against the Third World by western industrialised countries that the latter can easily dismiss genuine problems as propaganda. If UNCTAD VII became a mere platform for posturing, the losers would be the people of the developing countries and also their governments, whose standing in world politics is already declining. With or without UNCTAD VII, the developing countries cannot hope for adequate help from the mostly introverted governments of the industrialised countries or from the multilateral organisations that are reliant on them. The "spirit of multilateralism" will no doubt also be evoked at UNCTAD VII, but it will have disappeared again as soon as any resolutions have been adopted. The developing countries will have no option but to take stock of their own limited strengths and to review their development objectives modelled on the example of the industrialised countries.

In view of the developing countries' weakness in the area of human capital and the trend in worldwide structural change, which is determined by the industrialised countries and harmful to most developing countries, a development objective confined to maximising economic growth, exports and industrialisation and based on historically understandable but politically unrealistic assumptions about the behaviour of the industrialised countries has led not to a "new international economic order" as envisaged by the developing countries but to greater economic dependence for most of them and to the



impoverishment of large sections of their populations. For too long the developing countries have accepted the industrialised countries' definition of underdevelopment instead of tackling the problem of development in the wrong direction. It is uncertain whether they can move to a development objective that is both more modest and at the same time more ambitious; this would have to be geared towards economic improvements over the status quo on the basis of indicators set by themselves and to include socio-cultural aspects such as the participation and integration of the majority of the population, the value of independent solutions and a clear willingness to reduce their dependence on aid. Self-reliance in place of reliance on aid is ultimately a political issue that each developing country must solve for itself. For the foreseeable future, however, they must expect the duality between the domestic and external sectors to continue.

The "developed" industrialised countries have no cause for complacency or for preaching to their developing cousins, for their own ability to adjust structurally and to correct imbalance is underdeveloped. It would be more sensible if they were to correct flaws in their own domestic economies and in their world economic order than to export free market principles that they do not even apply themselves in their own structurally weak regions and sectors.

Finally, the developing and industrialised countries must clarify what they want from development co-operation. Development can only be undertaken by the country itself, be it developing or developed. "Development assistance" can only bring about the transfer of capital and expertise more or less efficiently. If it continues to be strongly influenced by ancillary foreign policy and mercantilistic objectives, it will be mere chance if a large part of it aids development. As long as that is the case, the call for greater efficiency also remains unconvincing. If such ancillary objectives continue to play a part, an increase in the volume of aid is the price to pay for inefficiency, which is partly intentional. On the other side of the coin, the developing countries often request assistance that has little to do with their declared priorities. One particularly sad chapter concerns food aid, which the industrialised countries grant mainly in order to dispose of surpluses and which the developing countries all too often come to rely on permanently as a substitute for efforts of their own to raise domestic food production and as a convenient supplement to their balance of payments and budget.

The interventionist character of development co-operation from both the political and economic points of

view must finally be recognised. Even untied transfers, which most developing countries would prefer, constitute political support and economic subsidies for existing structures and trends. Conditional aid may be better or worse, depending on whether it accords with the developing countries' generally well-placed but seldom observed priorities and whether it achieves its objectives under the conditions prevailing locally. After more than five years' experience with structural adjustment programmes the political requirements for co-operation in industrialised and developing countries ought to be viewed more realistically, not in a spirit of resignation but in order to employ more suitable instruments that will help fully to exploit and increase each country's scope for structural change. For example, government receipts that are more stable and less dependent on foreign trade could be used in place of financial aid to feed truly needy sections of the population, thereby making it politically possible to raise food prices. Failure is built in if "donors" demand unrealistically high efforts from developing countries themselves and if these rashly agree to them.

Finally, development plans and policies of conditionality should be corrected to eliminate the statistical nonsense imported from the industrialised countries, whereby roads, schools, power stations and the like count as investment, but not expenditure on the staff required to run and maintain them. Blanket requirements to reduce budget deficits are senseless if savings are made in the wrong places, the state services essential to the directly productive sector are not available and the only development resource possessed by even the poorest developing country, namely people's ability to help themselves, remains unused for lack of education and training.

In a more open policy dialogue the developing countries should also be able to demand changes in the behaviour of the industrialised countries, such as in trade policy or in the practice of financing the use of highly-paid experts from developed countries but engaging few local skilled workers who could perform most standard tasks equally well at much lower cost. It would be understandable and a good thing if more and more developing countries recognised the high political and economic price of development co-operation and decided in consequence to reduce their need for internal and external assistance systematically and to begin to use aid very selectively. Only when the developing countries themselves value the efforts of their own citizens more highly as the core element of "development" can contributions from outside really help.