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## A TURNING POINT IN

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## NORTH-SOUTH ECONOMIC RELATIONS

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**Richard N. Gardner**  
*Professor of Law  
and International  
Organization  
Columbia University  
New York*

**Saburo Okita**  
*President  
Overseas Economic  
Cooperation Fund  
Tokyo*

**B. J. Udink**  
*Former Minister  
for Aid to  
the Developing  
Countries  
The Netherlands*

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# A TURNING POINT IN NORTH-SOUTH ECONOMIC RELATIONS

A Report of the  
Trilateral Task Force on  
Relations with Developing Countries  
to the  
Executive Committee of  
The Trilateral Commission

BRUSSELS

JUNE 23-25, 1974

*Rapporteurs:*

RICHARD N. GARDNER  
Professor of Law and  
International Organization,  
Columbia University  
New York

SABURO OKITA  
President, Overseas Economic  
Cooperation Fund  
Tokyo

B. J. UDINK  
Former Minister for Aid to  
Developing Countries  
The Netherlands

This report has been prepared for the Trilateral Commission and is released under its auspices. It was thoroughly discussed at the Trilateral Executive Committee meeting held in Brussels on June 23-25, 1974, and the Joint Statement issued by the Executive Committee in Brussels was based in part on it. The authors, who are experts from North America, Western Europe and Japan, have been free to present their own views. The Commission will utilize the report in making any proposals or recommendations of its own. It is making the report available for wider distribution as a contribution to informed discussion and handling of the issues treated. This first report of the Trilateral Task Force on Relations with Developing Countries will be followed next year by a second report, concerned with longer-term issues.

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*The Trilateral Commission was formed in 1973 by private citizens of Western Europe, Japan, and North America to foster closer cooperation among these three regions on common problems. It seeks to improve public understanding of such problems, to support proposals for handling them jointly, and to nurture habits and practices of working together among these regions.*

## THE TRILATERAL COMMISSION

c/o European Community    345 East 46th Street    c/o Japan Center for  
Institute for    New York, N. Y. 10017    International Exchange  
University Studies    8-4-3, Akasaka  
Rue de Trèves 47    Minato-ku  
1040 Brussels, Belgium    Tokyo, Japan

## The Rapporteurs

RICHARD N. GARDNER was born in New York City on July 9, 1927. He attended Harvard University (A.B., *magna cum laude*, 1948) and Yale Law School (J.D., 1951), and obtained the Ph.D. in Economics from Oxford University in 1954, having spent the previous two years there as a Rhodes Scholar. He worked as a correspondent with A.P. and U.P. at various times from 1946-1948, and was a Teaching Fellow in International Legal Studies at the Harvard Law School from 1953 to 1954. He took up the practice of law with Coudert Brothers in New York from 1954 to 1957, and then joined the faculty of the Columbia University School of Law, serving as Associate Professor of Law until 1960, and as Professor from 1960 to 1961. In 1961 he was appointed Deputy Assistant Secretary of State for International Organization Affairs, a position which he held until 1965. In that year he returned to Columbia, where he now serves as Henry L. Moses Professor of Law and International Organization. In 1970-1971, he was a Member of the President's Commission on International Trade and Investment Policy. Mr. Gardner is the author of *Sterling-Dollar Diplomacy* (1956), *In Pursuit of World Order* (1964), *Blueprint for Peace* (1966), and other books and articles on questions of law, foreign policy, and economic development.

SABURO OKITA was born on November 3, 1914 in Dairen, Manchuria. Upon graduation from Tokyo University, he served as Engineer in the Ministry of Posts. In 1947 he became Chief of the Research Section of the Economic Stabilization Board, and in 1952 joined the U.N. Economic Commission for Asia and the Far East. In 1953, he entered the Economic Planning Agency in Japan, serving as Chief of the Economic Cooperation Unit (1953), Director of the Planning Bureau (1957), and Director of the Development Bureau (1962-1963). From 1964 to 1973 he was Special Advisor to the Minister of the Economic Planning Agency, and was President of the Japan Economic Research Center during the same years, becoming Chairman of the latter body in 1973. He has also served as a Member of the Pearson Commission on International Development (1969-1970), and of the U.N. Development Planning Committee (since 1965). Mr. Okita was President of the International Development Center of Japan from 1971 to 1973, and now serves as Special Advisor to that organization. He is now President of

the Overseas Economic Cooperation Fund, and a member of the Executive Committee of the Trilateral Commission. His books include *The New Image of the Japanese Economy* (1971) and *The Role of the Economist* (1973).

B. J. UDINK was born on February 12, 1926, and attended the Netherlands School of Economics in Rotterdam and the Ecole des Hautes Etudes Commerciales in Lausanne. From 1950 to 1963 he was a Lecturer at the Netherlands School of Economics and Director of the Central Institute for Traffic Engineering. He served as Director of the Central Chamber of the Netherlands for Export Promotion from 1962 to 1967. Since 1965, Mr. Udink has been a Member of the National Advisory Council for Aid to the Developing Countries, as well as Chairman of the Protestant Group in the Rijnmond Council. In 1967 he entered the Dutch cabinet, serving as Minister Without Portfolio, Responsible for Aid to the Developing Countries (1967-1971), Minister of Housing and Physical Planning (1971-1972), and Minister of Transport (1972-1973). Mr. Udink is currently Managing Director of OGEM Holding, N.V., Rotterdam.

## The Trilateral Process

The report which follows is the joint responsibility of the three rapporteurs of the Trilateral Task Force on Relations with Developing Countries, with Professor Richard N. Gardner serving as principal drafter.

Although only the three rapporteurs are responsible for the analysis and conclusions, they were aided in their task by extensive consultations with experts from the trilateral regions, the developing countries, and various international organizations. In each case, the consultants spoke for themselves as individuals and not as the representatives of any institutions to which they belong. Those consulted included the following:

- David Aaron, *Foreign Policy Advisor to Senator Walter F. Mondale*  
Yasushi Akashi, *Senior Officer, Inter-Agency Affairs, United Nations*  
Abdoul Barry, *Regional Director for West Africa, Canadian University Service Overseas, Ouagadougou, Upper Volta*  
Robert R. Bowie, *Clarence Dillon Professor of International Affairs, Harvard University*  
Zbigniew Brzezinski, *Director, The Trilateral Commission*  
William D. Clark, *Director, External Relations, International Bank for Reconstruction and Development*  
Gerald L. Curtis, *Director, East Asian Institute, Columbia University*  
William D. Dale, *Deputy Managing Director, International Monetary Fund*  
Pathe Diagne, *African Studies Center, DePaul University, and the Institut Fondamentale de l'Afrique Noire, Dakar, Senegal*  
El-Sayed Dohaia, *International Economic Relations Centre, Institute for National Planning, Cairo, Egypt*  
George S. Franklin, *North American Secretary, The Trilateral Commission*  
Gordon Goundrey, *Professor of Economics, Memorial University, Newfoundland*  
Ravi Gulhati, *Director, Development Economics Department, International Bank for Reconstruction and Development*  
Mahbub-ul Haq, *Director, Policy Planning and Program Review Department, International Bank for Reconstruction and Development*  
Michael Hoffmann, *Director, International Relations Department, International Bank for Reconstruction and Development*  
Richard Holbrooke, *Managing Editor, Foreign Policy Magazine*  
Lady Barbara Ward Jackson, *Former Albert Schweitzer Professor of International Economic Development, Columbia University*  
Neville Kanakaratne, *Ambassador of Sri Lanka to the United States*  
Lane Kirkland, *Secretary-Treasurer, AFL-CIO*  
Max Kohnstamm, *European Chairman, The Trilateral Commission*

Robert S. McNamara, *President, International Bank for Reconstruction and Development*

Maria Teresa Moraes, *Brazilian lawyer and journalist*

Goran Ohlin, *Professor of Economics, University of Stockholm*

Raimi Ola Ojikutu, *Nigerian human biologist and anthropologist*

Akira Onishi, *Project Manager, International Development Center of Japan*

Samuel L. Parmar, *Professor of Economics, Allahabad University, Allahabad, India*

Felix Peña, *Instituto para la Integracion de America Latina, Buenos Aires, Argentina*

Gustav Ranis, *Director, Economic Growth Center, Yale University*

Krishna Roy, *Advisor, Centro de Estudios de Poblacion, Lima, Peru*

Phillips Ruopp, *Director, International Affairs, Charles F. Kettering Foundation*

Gerard C. Smith, *North American Chairman, The Trilateral Commission*  
Ernest Sturt, *Director, Exchange and Trade Relations, International Monetary Fund*

Wouter Tims, *Director, Economic Analysis and Projection Department, International Bank for Reconstruction and Development*

Jan Tinbergen, *Professor, Netherlands School of Economics, Rotterdam*  
Constantine V. Vaitsos, *Advisor to the Board, Acuerdo de Cartagena, Lima, Peru*

Cyrus R. Vance, *Partner, Simpson, Thacher & Bartlett*

Takeshi Watanabe, *Japanese Chairman, The Trilateral Commission*

H. Johannes Witteveen, *Managing Director, International Monetary Fund*

Bernard Wood, *Executive Secretary, Canadian Group, The Trilateral Commission*

Montague Yudelman, *Director, Agriculture and Rural Development Department, International Bank for Reconstruction and Development*

Ricardo Zuniga, *Visiting Assistant Professor of Sociology, Queens College, City University of New York*

## SCHEDULE OF TASK FORCE ACTIVITIES:

- December 17, 1973 — Joint meeting of the Task Force on Relations with Developing Countries and the Task Force on Trade, in Washington, to discuss the implications of the oil crisis. Also participating were the Commission Director, the three Chairmen, the Secretaries, and members of the Brookings Institution.
- December 18 — Task Force meets to select principal drafter, agree on topics to be treated in the report, and arrange future meetings; discussion with Robert S. McNamara, President of the World Bank.
- Late January, 1974 — Gardner and Udink meet in Amsterdam.
- March 18 — Gardner, Udink, and Onishi meet in Washington to consult with local members of the Trilateral Commission and with Robert S. McNamara, H. Johannes Witteveen and other officials of the IBRD and the IMF.
- March 19 — Gardner, Udink, and Onishi meet with experts from various developing countries at the Belmont Conference Center in Maryland, at a conference arranged by the Overseas Development Council and the Charles F. Kettering Foundation.
- March 22 — Gardner, Udink, and Onishi meet with local Trilateral Commission members in New York City.
- April 24 — First draft of the report completed and circulated within the Commission.
- April 27 — Gardner and Udink meet with various consultants in New York City.
- May 22 — Second draft of the report completed and approved by all Rapporteurs.
- May 30 — Second draft discussed at North American Commissioners meeting in New York City.
- Early June — Third draft completed.
- June 25 — Discussion of the report at the Executive Committee meeting in Brussels.

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SUMMARY OF THE FIRST REPORT OF THE TASK FORCE  
ON RELATIONS WITH DEVELOPING COUNTRIES:

A Turning Point in  
North-South Economic Relations

The time has come for new policies and new actions by the governments of the Trilateral region in their relations with developing countries. There is a crisis in North-South relations that requires two kinds of responses from the Trilateral governments:

*First*, there is need for a general restructuring of North-South economic relations for the purpose of creating a more just and workable world economic order. Such a new economic order should include, among other things, greater attention by both developed and developing countries to their growing interdependence, greater respect for the equal rights of all members of the world community under international law, the abolition of "spheres of influence," greater recognition of the differing needs and capabilities of different developing countries, the pursuit of cooperation rather than confrontation, the focusing of development efforts on the poorest segment of populations in developing countries, new rules and arrangements governing access to supplies as well as access to markets, and a restructuring of international economic institutions in the light of new political and economic realities. We propose to deal with the extremely complex questions involved in this restructuring in a later report to be issued early in 1975.

*Second*, there is need to deal with the desperate plight of nearly one billion people in some 30 resource-poor developing countries whose governments cannot pay the increased bills for oil, food, fertilizer and other products. At least \$3 billion in extra concessional aid must be found for these countries in 1974-75 to avoid economic disaster. This situation calls for an extraordinary act of cooperation between the countries of the Trilateral region and the oil exporting countries of OPEC. The former bear a special responsibility because they have a vastly greater total national income and the latter bear a special responsibility because of the dramatic increase in their export earnings and therefore in their capacity to invest sums abroad. We believe it would be reasonable for the Trilateral world as a whole to provide about \$1.5 billion of this total, with the OPEC countries providing the other \$1.5 billion. In

response to the appeal of the Secretary-General of the United Nations, contributions to this special emergency effort could be made through bilateral or multilateral channels and could take the form of cash, concessional sales of food, fertilizer and oil, and the cancellation or postponement of debt repayment. The Soviet Union should be invited to participate in this emergency assistance effort in the light of its considerable economic capabilities and the fact that it has benefited on the whole from the recent increase in raw material prices.

## A TURNING POINT IN NORTH-SOUTH ECONOMIC RELATIONS

There are critical turning points in history when the lives and fortunes of large numbers of human beings hang upon the outcome of decisions taken by a small handful of national leaders. We have reached such a turning point in relations between the advanced industrialized countries of Europe, North America and Japan, on the one hand, and the developing countries of the Middle East, Africa, Asia and Latin America on the other.

The oil embargo — the fourfold increase in oil prices — the higher costs and severe shortages of food and fertilizer — the unprecedented concurrence of acute inflation and recession throughout the industrialized world — these events have gravely strained the tenuous fabric of international economic relations. In particular, they have detonated an explosion in North-South economic relations that has been building up for years. While demonstrating more clearly than ever before the interdependence of developed and developing nations, they have also provided a new stimulus to the advocates of economic nationalism and of confrontation by economic blocs. In short, they have raised the most troubling questions about the world's ability to manage its interdependence through peaceful cooperation.

We believe the time has come for new policies and new actions by the governments of the Trilateral region in their relations with the developing countries. Interdependence is now a persuasive fact as well as a convenient slogan. The developing countries need the aid, technology, know-how and markets of the Trilateral world. The Trilateral countries increasingly need the developing countries as sources of raw materials, as export markets, and, most important of all, as constructive partners in the creation of a workable world order. In our approach to this subject we reject any idea of a "rich man's club" forming defensive alliances against the poor. On the contrary, we seek a new international economic order based on cooperation between developed and developing countries, corresponding to the new balance of economic and political power, and responsive to growing demands for welfare and justice. We are convinced that an international economic system cannot successfully endure unless both rich and poor countries feel they have a stake in it.

The crisis in North-South relations has two vital aspects that require immediate responses from governments of the Trilateral region:

The first aspect is the desperate plight of nearly one billion people in some thirty resource-poor developing countries whose governments cannot pay the increased bills for oil, food, fertilizer, and other products. According to the World Bank, at least \$3 billion in extra concessional aid must be found for these countries in 1974-75 to avoid economic disaster. This first report of the Trilateral Commission Task Force on Relations with Developing Countries offers a plan to make this sum available through an extraordinary act of cooperation between the countries of the Trilateral region and the oil producing countries.

The second aspect is the urgent necessity of a general restructuring of the international institutions governing North-South economic relations. We propose to deal with the extremely broad and complex questions involved in this restructuring in a later report to be issued early in 1975. But we take the occasion of this first report to offer some general considerations about economic relations between North and South which should be reflected in any reformed institutional structure.

## I

Only last year, the World Bank estimated that the developing world as a whole would be able to sustain the 6% rate of growth which was the minimum objective of the Second United Nations Development Decade. This relatively hopeful prospect has been shattered by the following developments:

- the quadrupling of oil prices has added about \$10 billion a year to the import bills of the non-oil-producing developing countries;
- the increase of food and fertilizer costs has added another \$5 billion a year to the import bills of these countries;
- there has been a steep rise in the prices of other raw materials and manufactured goods imported by developing countries;
- the general economic slowdown in the industrialized world is reducing the foreign exchange earnings flowing to developing countries from merchandise exports, tourism and workers' remittances.

To grasp the full meaning of these events for the developing countries it needs only to be noted that the extra \$15 billion that these countries must now pay for oil, food and fertilizer is almost double the \$7-8 billion in total development assistance coming to them each year from all the industrialized countries of the Trilateral region.

In terms of their capacity to absorb these severe economic blows,

the non-oil-producing developing countries can be divided into two categories:

1. There are countries like Mexico, Brazil, Turkey and Malaysia, which enjoy substantial foreign exchange reserves, high prices for their exports or ready access to capital markets. These countries can take care of themselves without additional concessional aid. However, some of these countries will require additional short or medium-term borrowing facilities from international institutions to enable them to maintain their development programs during the 1974-75 period.

2. There are the resource-poor, low-income developing countries that lack large foreign exchange reserves, buoyant export prospects, or the ability to service credit on commercial or near-commercial terms. This group of countries — sometimes called the "Fourth World" to distinguish them from "Third World" countries with more hopeful economic prospects — includes some 30 countries with nearly 1 billion people, among them India, Pakistan, Bangladesh, some tropical African countries, and a few countries in Latin America. The World Bank estimates the needs of these countries for additional concessional aid due to the special new factors mentioned above at \$0.8 billion in 1974 and \$2.1 billion in 1975 — a total of about \$3 billion.

The plight of the "Fourth World" countries cannot wait for a general restructuring of the international economic order — a task that may take years. Without emergency measures in the next few months, the shortage of food, energy, and other essential supplies will bring mass starvation, unemployment, and increased hardship for millions already at the economic margin. As Robert S. McNamara, President of the World Bank, put it in his report to the Bank's Executive Board: "Unless substantial additional resources for both long-term investments and immediate balance of payments needs are provided quickly, the hopes of hundreds of millions of people for even modest advances in their economic well-being during the remainder of this decade will be shattered." The result would be a grave weakening of already fragile political and social structures and a clear and present danger of civil violence and even international conflict.

There are two main sources of potential aid for the hard-hit developing countries — the oil producers and the Trilateral world. The oil revenues of the members of the Organization of Petroleum Exporting Countries (OPEC) are expected to increase from about \$15 billion in 1972 to about \$85 billion in 1974. Those OPEC members with large populations and large development needs (Iran, Algeria, Nigeria, and

Indonesia) will be able to spend all or most of their additional oil revenues on imports. Other OPEC members with relatively sparse populations (Saudi Arabia, Kuwait, Iraq, Libya, Abu Dhabi, and Qatar) will have vast sums available for use overseas.

The countries of the Trilateral region represent the other possible source of help. As a group, they will be paying about \$60 billion more for their oil imports in 1974 over 1973. This will both accelerate their rates of inflation — already well into double figures — and aggravate the slowdown in their economies. For most of the Trilateral countries, 1974 will be a year of little growth in real terms — living standards for many of their citizens will actually be lower by the end of 1974 than they were at the beginning. In addition, almost all of the Trilateral countries will suffer large trade deficits as a result of the increased oil costs. However, it should be recalled that the Trilateral countries already stand on a plateau of unprecedented affluence — ranging from an income per capita of over \$2,500 in Japan and Europe to over \$5,000 in the United States — and that real incomes are expected to rise once again in 1975 and subsequent years after the “oil shock” has been digested and the recession has run its course. Moreover, virtually all of the additional foreign exchange earned by the oil exporting countries will come back to the Trilateral world in the form of new exports or investments. While we do not underestimate the formidable financial adjustments involved, or the difficulties that will face individual countries, we believe they can be managed by the Trilateral world without a general crisis.

Thus the capabilities for a rescue operation on behalf of the hardest hit developing countries are there — the question is the political will to use them. On the one side, the Trilateral countries see their economic prospects diminished, in substantial part because of an oil price increase imposed by the OPEC countries. Some people in the Trilateral countries are saying that the OPEC countries who have profited from the increased oil prices should take the responsibility for helping the developing countries meet the resulting burdens. The OPEC countries, in their turn, point out that the Trilateral countries have reaped gains of their own from price increases of food and fertilizer and industrial goods and reject any suggestion that their oil earnings should be treated differently from earnings on other commodities. They consider the oil price increase as a belated correction for years of unduly cheap oil which benefited the developed countries; and they point out that the combined GNP of the Trilateral world comes to about two trillion dollars, while the combined GNP of the OPEC countries is about \$150 billion — less than one-tenth of the Trilateral total.

We must not allow the plight of the non-oil-producing developing countries to worsen while the Trilateral world and the OPEC countries argue about who is to blame for the present crisis. Nor will anything be gained by controversies about what is a “fair” price for oil. In our opinion, the market price for oil during 1950-70 did not adequately reflect its exhaustibility, the need to develop new energy sources, and the general interest in curtailing wasteful consumption. While we also feel that the interests of the oil producing countries as well as of the oil consuming countries would have been better served by a more gradual and somewhat smaller price increase, we believe oil prices may well come down in relative terms over the next few years through changes in energy demand and supply patterns that are now underway. In any event, we feel strongly that a desire to secure a price rollback must not get in the way of urgent measures to help developing countries avoid economic disaster. The financial solutions that will shortly be suggested will have no appreciable effect on the price question. Moreover, it is morally unacceptable to seek an oil price rollback by putting in jeopardy the lives of millions of innocent people.

We believe the proper approach to burden-sharing between the Trilateral world and the OPEC countries is to recognize that the former bear a special responsibility because they have a vastly greater total national income and that the latter also bear a special responsibility because of the dramatic increase in their export earnings and therefore in their capacity to invest sums abroad. To put it another way, the Trilateral countries are wealthy, though not liquid; the OPEC countries are liquid, though not yet wealthy. We therefore propose that an extraordinary act of cooperation be undertaken between the Trilateral and OPEC countries along the following lines:

1. The two groups of countries should cooperate in making a success of the new “oil facility” proposed by Johannes Witteveen, the Managing Director of the International Monetary Fund. Under this facility, both developed and developing countries facing balance of payments difficulties from increased oil costs will be allowed access to their quotas free from the usual conditions that govern drawings. The Trilateral countries who have substantial amounts of their currencies in the Fund would allow them to be drawn on for this purpose. The OPEC countries with surplus resources would contribute a portion of these to support the oil facility. It is encouraging that some OPEC countries have already made commitments to do this.
2. To assure the continued flow of development capital to those

developing countries which are able to service loans on near-commercial terms, Trilateral countries that are the beneficiaries of substantial inflows of funds from OPEC countries or whose balance of payments positions are otherwise satisfactory should commit themselves to permit the sale of World Bank bonds in their capital markets, reserving the right to "opt out" of a bond issue only in exceptional cases. In their turn, OPEC countries would undertake to invest a substantial portion of their reserves in these securities.

3. Most importantly, the Trilateral countries and the OPEC countries should make available the \$3 billion in extra concessional aid that is needed in 1974-75 for the countries of the "Fourth World."

United Nations Secretary-General Kurt Waldheim, following up a decision of the Special Session of the General Assembly, has issued an appeal to 44 countries to contribute to an emergency program. These 44 countries, by and large, are the countries of the Trilateral and OPEC regions. We believe it is incumbent upon these countries to make prompt and generous contributions.

We believe that the burden of supplying the additional \$3 billion in concessional aid should be borne equally by the two groups of countries — the Trilateral world underwriting \$1.5 billion, the OPEC countries underwriting the other \$1.5 billion. This division of responsibility should be accepted as an ad hoc measure appropriate only to the present emergency and without prejudice to burden-sharing arrangements for the longer term. Aid granted after January 1, 1974 should be counted as a contribution to the emergency program provided it is on concessional terms (grants or long-term credits with very low rates of interest) and provided it is additional to pre-existing aid levels.

The distribution of the aid burden within the two groups of countries would be a matter for negotiation within each group:

We believe the Trilateral countries should share in the \$1.5 billion in the same proportion as they are sharing in the \$4.5 billion (\$1.5 billion per year for three years) called for in the fourth replenishment of the International Development Association. What this would mean in additional commitments by each Trilateral member is indicated in Table 1.\* The Trilateral countries would be free to discharge these additional commitments by contributions of additional financial aid or by additional food aid on concessional terms. In exceptional cases where neither of

\*For example, the U.S. share of the IDA \$4.5 billion is \$1.5 billion. Its share of the extra \$1.5 billion in concessional aid proposed here would be \$500 million.

these forms of assistance is feasible, aid could take the form of postponing debt repayments. The Trilateral countries should also agree to maintain their existing aid flows and make available the sums called for in the agreement on the fourth replenishment of the International Development Association. In this connection favorable action by the U.S. Congress on the pending IDA legislation is needed without further delay.

No already agreed guidelines exist for the apportionment of the other \$1.5 billion among the OPEC countries. We note, however, that this sum represents about 2 percent of the \$70 billion increase in their oil revenues that took place between 1972 and 1974. Table 2 shows *inter alia* the estimated distribution of oil revenues between OPEC members in 1974 and how each of them has shared in the increase of revenues between 1972 and 1974. Clearly any judgments about burden-sharing to be derived from these figures should take account of the differences in per capita income among the OPEC countries, which is also shown in the Table. Moreover, OPEC countries should have the same flexibility in contributing to the emergency program as the Trilateral countries. They could make their contribution in the form of sales of oil on concessional terms equivalent to U.S. concessional food sales (40 year credits at 3 percent interest) or by increasing bilateral or multilateral financial aid.

We believe the Soviet Union should participate in the \$3 billion emergency aid program in the light of its considerable economic capabilities and the fact that it has benefited on the whole from the increase in raw material prices. The spirit of detente and of global solidarity would be importantly strengthened by Soviet cooperation in this initiative to help the "Fourth World." To the extent that the Soviet Union can be persuaded to make a contribution, the amount required from the Trilateral and OPEC countries would be proportionately reduced.

In view of the need for urgent action, time should not be lost in arguments about institutional mechanisms. Assistance can be given through bilateral arrangements, institutions of the OPEC countries, or existing multilateral institutions such as the International Bank/International Development Association, the Regional Development Banks, and the World Food Program. The important thing is that the assistance be made available quickly and in sufficient amounts. However, it should be emphasized that assistance should take the form of program aid and not be tied to specific projects. Moreover, it will be necessary for some central institution to certify that contributions are made in an appropriate form and are received by countries in the category of those requiring extra concessional aid.

While we recommend flexibility on institutional forms in the interest of launching the emergency program, we do favor the use wherever possible of existing multilateral institutions. They possess a fund of experience and a reservoir of technical and managerial skill that is not easily duplicated.

There are a number of options open to the OPEC and Trilateral countries that could make use of these existing institutions while assuring the donors of a satisfactory measure of control over the use of their funds:

- use of the multilateral institutions as executing agencies for bilateral or regional aid programs approved by Trilateral or OPEC countries;
- case-by-case participation by Trilateral or OPEC countries in loans of the multilateral institutions (as in the recent IBRD loan to Syria, half of which was subscribed by the Kuwait fund);
- creation of a "special fund" for OPEC contributions in the IBRD/IDA with special voting and decision-making arrangements governing use of that fund;
- direct contributions to the concessional funds of these institutions, with appropriate renegotiation in voting rights and decision-making arrangements.

If it should prove impossible to use the latter two approaches in time for the emergency program, they should certainly be explored for the longer run. In this connection, we note the estimate of the World Bank that in the period 1976-80 the developing countries will require \$4 to \$5 billion a year of extra concessional aid in order to meet their minimum development goals. This additional requirement will result not only from the increased cost of imports but from the running down of the developing countries' monetary reserves and the expected deterioration in their terms of trade associated with the slowing down in the growth rate of the developed countries. It is not too soon to begin exploring how multilateral institutions might be adapted to facilitate Trilateral-OPEC cooperation in development beyond the emergency program. Nor is it too soon to examine how, through the development of indigenous food and energy resources, the curbing of excessive population growth, and other measures to be mentioned later, the economic and social goals of developing countries can be realized in the 1980's without indefinite infusions of large amounts of concessional aid.

We believe the time has also come for high-level negotiations between Trilateral and OPEC countries aimed at assisting the latter in

the diversification and development of their own economies. The leaders of the oil exporting nations are understandably concerned that measures be taken now to assure a sound economic future for their people after their petroleum resources are depleted. To the extent that the Trilateral countries assist in the solution of this problem, Trilateral-OPEC cooperation in short and longer-term measures to help the non-oil-producing developing countries is likely to be enhanced. One obvious area of mutual interest which needs to be explored is the establishment of fertilizer production in the OPEC countries of the Middle East, combining the abundant oil and gas of these countries with capital and technology from the industrial world. The output of such facilities could be used not only in the area but also in the fertilizer-short countries of the Indian subcontinent.

In our opinion, time is now of the essence. The full impact of the plight of the developing countries has not registered so far because financial settlements for oil are made quarterly and bills for oil shipped at the new high prices are only just coming due. The "crunch" will come this summer when accounts for the second quarter of the year have to be settled. We call on the Trilateral countries, in their enlightened self-interest, to assume shared responsibility with the members of OPEC in this new venture of cooperation to cope with the present emergency before it is too late.

## II

Even as the Trilateral countries respond to the present emergency, they must begin the longer-term task of helping to build a new and more satisfactory international economic order. Our work thus far, aided by consultations with experts from both developed and developing countries, has led us to the following broad conclusions about the new approaches that need to be developed for North-South economic relations:

1. Both developed and developing countries need to give greater weight in policy-making to their growing interdependence. For the Trilateral region, this means that liberal aid and trade measures on behalf of developing countries should be undertaken not only because "it is right" but because the Trilateral world increasingly needs the developing countries as sources of raw materials, as export markets, and most important of all, as constructive partners in the operation of a workable world political and economic order. In the months and years ahead, the Trilateral countries will be engaged in negotiations with

developing countries on a broad range of issues including finance and trade, energy and resources, and the law of the sea. Slowly but surely, a new system of relationships is being negotiated in place of the old one that emerged from the postwar era. This new system will not emerge unless it adequately reflects the views and interests of the developing countries; it will not survive unless these countries feel they have a stake in it.

2. The new system of relationships must respect the right to independence and equality under international law of all members of the world community, rich and poor, large and small. We categorically reject not only old-fashioned colonialism but also latter-day concepts of neo-colonialism, paternalism and tutelage. All countries should be free to determine their own political, economic and social systems, free of external coercion. At the same time, any system of full equality must acknowledge that every member of the community has obligations as well as rights. The obligation of wealthy countries to provide assistance is matched by an obligation of developing countries to use assistance to improve the quality of life for the masses and not just for a privileged few. Development is mainly the result of local effort; thus developed countries have a legitimate interest in the progress made by developing countries in mobilizing the energies of their people through reforms in their political, economic and social structures. The way for developed countries to express this legitimate interest is through cooperative programs with developing countries in which changes in domestic policies are sought through a process of mutual persuasion, and not imposed by outside dictation. Foreign investment is a particularly sensitive area where the rights and obligations of developed and developing countries need to be carefully balanced. Developing countries should be free to determine whether and under what conditions they wish to accept foreign investment. Yet all countries bear the obligation of fair treatment for foreigners and their property — a concept that applies both to developing countries' citizens and investments in developed countries and vice-versa. The practical application of this principle must find an appropriate balance between respect for contract and property rights, on the one hand, and the need to assure mutuality of benefits on the other, and there may be circumstances in which arrangements originating in a period of unequal bargaining power will need to be revised.

3. There is no room in such a new system of relationships for the concept of "spheres of influence" or even "spheres of responsibility." We reject the idea that special aid and trade policies should be developed tying Africa to Europe, Latin America to the United States or Southeast

Asia to Japan. This does not exclude the free collaboration between developed and developing countries of the same region on projects based on mutual economic interest. What it does rule out are the exchange of tariff preferences between limited groups of developed and developing countries or the granting of military and economic aid in return for preferred access to raw materials. We must avoid the temptation that faces the Trilateral countries in a period of resource scarcity to concentrate their aid and trade favors on a relatively few resource-rich developing countries while ignoring the needs of the rest. A system that emphasizes multilateral aid flows and multilateral trade concessions is most likely to prevent this development and serve the long-term interests of all.

4. The policies of both governments and international organizations should reflect greater recognition of the differing needs and capabilities of different developing countries. From an economic point of view, the so-called "Third World" has become at least three worlds — the oil producing countries earning huge amounts of foreign exchange, the relatively well-off developing countries with other valuable resources or a growing industrial base, and the "have-not" developing countries such as those in the Indian subcontinent and the Sahelian zone of Africa. Emphasis on these differences is not motivated by a desire to break up the unity of the developing world — the developing countries will continue to unite when they have common interests — it is motivated rather by a desire to adapt policies to new realities so that the legitimate interests of all will be served. For example, concessional aid should henceforth be concentrated on the have-not developing countries that need it most, with other developing countries making contributions of capital and technical assistance in accordance with their emerging capabilities.

5. The interests of both developed and developing countries will be better served in this historical period by cooperation than by confrontation. We recognize that this statement has a hollow ring in the light of the failure of developed countries to live up to the aid-and-trade targets of the two U.N. Development Decades. It is true that confrontation sometimes brings short-term benefits. But in the longer-run — particularly in the difficult economic and political conditions of the mid-1970's — it is bound to stimulate defensive and harmful responses from the governments and peoples of the developed world. The developed countries who have the military, political and economic power can only be persuaded by appeals to mutual interest; emphasis on adversary interests and the abuse of automatic majorities in international agencies

is likely to delay the desired adjustments. At the same time, the developed countries must realize that confrontation has resulted from past failures of cooperation for which they bear a heavy responsibility and that more responsive policies will be required on their part if cooperation is to be possible in the future.

6. Much more must be done to assure that development efforts help the bottom 40 percent of the population in the developing countries. Donor and recipient countries, working together in their mutual interest, should promote development programs that stress not only increases in GNP but also the "qualitative" aspects of development — the eradication of extreme poverty, a better distribution of income and wealth, the improvement of rural welfare, the reduction of unemployment, and broad access to education, health and social services. Two key elements in such a "people-oriented" development strategy should be measures to increase the productivity of the small farmer and to adapt technologies to situations where labor is abundant and capital scarce. Another key element is effective action to reduce population growth, which in many developing countries threatens to overwhelm efforts to improve the quality of life. We believe that all countries should adopt and implement realistic population policies as an integral part of their development plans.

7. New rules and arrangements governing access to supplies should be part of a new system of relations between developed and developing countries. Such new rules and arrangements would be in the general interest, for at least four reasons: First, developing countries as a group are as dependent on developed countries for supplies of food and manufactured goods as developed countries are dependent on them for supplies of energy and raw materials. The logic of interdependence suggests the need for some agreed limits on the ability of producers to cut off the essential supplies of others for political or economic reasons. Second, countries faced with the prospect of supply cut-offs are likely to seek more secure alternatives through policies of national or regional self-sufficiency — thus export controls breed import controls. Third, the availability of substitutes and synthetics and lower grade ores sets serious limits on the practicability of producer cartels for commodities other than oil; thus while such cartels may occasionally yield short-term results to the participants they are likely to be self-defeating in the longer run. Fourth, the "have-not" developing countries have the greatest stake in reasonable access to food, energy and other supplies. Any international system that leaves them at the mercy of supplying countries fails to meet minimum requirements of economic justice. Having said all this, we

recognize that access to supplies is not likely to be negotiated except in the context of a more satisfactory international system. The challenge to developed and developing countries is to fashion a "world order bargain" in which access to supplies is traded for other kinds of access — access to markets at stable and remunerative prices, access to technology and capital, and access to a reasonable share of decision-making in international economic forums.

We realize only too well that the broad concepts outlined above are much easier to define than implement successfully. Such concepts will become really meaningful only as developed and developing countries find answers to such questions as the following:

— How can political support be created in the Trilateral countries for liberal aid and trade policies at a time of acute inflation, stagnant growth, rising unemployment and political instability?

— What specific changes in the policies of governments and international agencies would be necessary to implement a "people-oriented" aid strategy?

— Is it in the interest of the Trilateral countries to support the establishment of substantial new sources of development assistance independent of annual government decision-making, such as the "link" with SDR creation or revenues from seabed exploitation?

— How can the Trilateral countries open their markets to the agricultural and manufactured exports of the developing countries while assuring orderly internal adjustment?

— How can the potential of foreign investment in general and the multinational corporation in particular be utilized consistently with the needs and aspirations of developing countries?

— What specific rules on supply access would be desirable and feasible as part of the "world order bargain"?

— What kind of commodity agreements — and for which specific commodities — would serve the interest of both exporting and importing countries?

— In particular, what kind of cooperative arrangements and joint ventures would harmonize the oil exporting countries' interests in industrialization and diversification with the oil importing countries' needs for secure and reasonably priced energy supplies?

The answers to these questions will not be quickly or easily found. But the prospects for finding solutions would be enhanced by the right kind of institutional framework. We therefore propose to devote our

**TABLE 1**  
**COMPARATIVE INDICATORS FOR IDA CONTRIBUTING COUNTRIES**  
 (figures in the first column should be divided by 3 to give the indicated additional contribution in emergency aid.)

Contributing Countries	Fourth Replenishment Contribution (millions U.S. dollars equivalent and percentage of total)		Third Replenishment Contribution (millions U.S. dollars equivalent and percentage of total)		% of Combined GNP of Contributing Countries	Official Development Assistance as % GNP in 1972	Population (millions)
<b>Part I Countries</b>							
Australia	\$ 90.0	2.0%	\$ 48.0	2.0%	1.72%	.61%	12.3
Austria	30.6	0.7	16.3	0.7	.77	.09	7.4
Belgium	76.5	1.7	40.8	1.7	1.34	.55	9.6
Canada	274.5	6.1	150.0	6.1	3.93	.47	21.1
Denmark	54.0	1.2	26.4	1.1	.78	.45	4.9
Finland	25.2	0.5	12.2	0.5	.49	(a)	4.7
France	253.5	5.6	150.0	6.1	7.51	.67	50.3
Germany	514.5	11.4	234.0	9.6	9.77	.31	60.8
Iceland	1.3	0.03	-	-	.03	(a)	(b)
Ireland	7.5	0.2	3.9	0.2	.20	(a)	2.7
Italy	181.3	4.0	96.7	4.0	4.37	.09	53.2
Japan	495.0	11.0	144.0	5.9	11.27	.21	102.3
Kuwait	27.0	0.6	10.8	0.4	.13	(a)	0.6
Luxembourg	2.2	.05	1.2	.05	.05	(a)	0.3
Netherlands	132.7	2.9	67.5	2.8	1.71	.67	12.9
New Zealand	11.7	0.26	3.3	0.25(c)	.31	(a)	2.8
Norway	49.5	1.1	24.0	1.0	.58	.41	3.9
South Africa	9.0	0.2	3.0	0.1	.72	(a)	20.2
Sweden	180.0	4.0	102.0	4.2	1.52	.48	8.0
United Kingdom	499.5	11.1	311.0	12.7	5.75	.40	55.5
United States	1,500.0	33.3	960.0	40.0	43.36	.29	203.2
<b>Part II Countries</b>							
Israel	1.0	.02	-	-	.26	(a)	2.9
Spain	13.3	.30	2.5	0.1	1.73	(a)	22.5
Yugoslavia	5.0	.11	4.0	0.2	.58	(a)	20.5
Switzerland (NOT MEMBER OF IDA)	66.1	1.50	30.0	1.2	1.14	.21	6.2
<b>Totals</b>	<b>\$4,500.0</b>	<b>100.0</b>	<b>\$2,442.0</b>	<b>100.0</b>	<b>100.0</b>		

(a) Not members of the Development Assistance Committee (DAC) (b) Less than one million (c) Not member of IDA for Third Replenishment

second report to the restructuring of the international institutions governing North-South economic relations.

It is no secret that the existing institutional system is the subject of widespread criticism from both developed and developing countries. Questions have been raised about the "politicalization" of economic discussions, about methods of creating, changing, interpreting and enforcing the rules, about the efficiency and impartiality of the international civil service, and about the difficulty of coordinating the growing number of functional and regional structures.

Perhaps most important of all, there is a growing dissatisfaction with voting and decision-making arrangements. It is already clear to us that the developing countries, and particularly the oil producing countries, should have more voting rights and a greater role in the management of the International Monetary Fund and World Bank group. At the same time, some procedural reforms are needed in those forums such as the General Assembly, UNCTAD and GATT where the one-nation one-vote principle fails to reflect fairly the balance of economic interest and power. Differential voting rights may be difficult to negotiate, but resort can also be had to special majority requirements, committees with selective representation, and conciliation procedures using impartial and expert third parties. Obviously institutional changes cannot be a substitute for political will, but such reforms could help promote a sense of confidence in the objectivity and effectiveness of international institutions that is presently lacking.

In the preparation of this report, we have come to see a close relation between our proposals for emergency action and these longer-term questions of institutional restructuring. Without effective action to deal with the urgent plight of the hardest-hit developing countries, the prospects of creating a new and better relationship between the Trilateral world and the developing world will be dim indeed. Yet unless we keep in mind some vision of the new international economic order we want to create, it is unlikely that we will find satisfactory answers to the immediate crisis. It is our hope that by identifying both the short and longer-term issues in North-South relations we may hasten the day when interdependence becomes not just a convenient slogan but a working system.

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a) ODC estimate based on World Bank estimates for OPEC government oil revenues, population (mid-1971), and population growth rates. SOURCES: Oil revenue figures are informal World Bank staff estimates. GNP and population figures are from World Bank Atlas, 1974 (Washington, D.C.: World Bank Group, 1974). Import figures are based on International Trade, 1972 (Geneva: General Agreement on Tariffs and Trade, 1973), Publication Sales No. GATT 1973-3.

Country	Estimated Oil Revenue (\$ millions)		Per Capita Government Oil Revenue \$	Per Capita \$	Population (millions)	Total Imports (\$ millions)	
	1972	1973				1971	1972
Saudi Arabia	2,988	4,915	19,400	393	7.8	1,229	1,229
Iran	2,423	3,885	14,930	79	450	2,410	2,410
Kuwait	1,600	2,130	7,945	1,758	2,131	797	797
Iraq	802	1,465	5,900	80	3,860	713	713
Abu Dhabi	538	1,035	4,800	11,700	370	n.a.	n.a.
Qatar	247	360	1,425	1,941	3,150	n.a.	n.a.
Venezuela	1,933	2,800	10,010	176	2,370	2,433	2,433
Libya	1,705	2,210	7,990	820	1,060	1,101	1,101
Nigeria	1,200	1,950	6,960	21	1,450	1,502	1,502
Algeria	680	1,095	3,700	45	59.4	1,760	1,760
Indonesia	480	830	2,150	4	124.0	1,458	1,458

TABLE 2 Estimated Oil Revenues, Per Capita GNP, Population, and Total Imports of Eleven OPEC Countries

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