

1 The Setting: Three Years Later

Three years have passed since the publication of the Brandt Commission's Report: *North-South: A Programme for Survival*—years which have brought increasing economic hardship to the industrial countries, and little short of disaster to much of the developing world.

The Commission foresaw the world community in the 1980s facing much greater dangers than at any time since the Second World War. The prospects are now even darker. The international recession, which could deepen into depression in 1983; massive unemployment in the North and the threat of economic collapse in parts of the South; the acute dangers to the world's financial system and growing disorder in international trade; the deterioration of East-West relations and renewed arms build-ups; political and economic crises within Eastern Europe and at many other points in the globe; wars and civil strife in many Third World countries—all these add up to a highly unstable and uncertain future.

At the same time the Commission offered hope. It expressed the belief that national problems could be solved, but only with a degree of collaboration and wider vision which is still lacking in international affairs. It also argued that nations should perceive their mutual interest in taking joint action. That perception has for the most part been lacking—or if it was there, it was overwhelmed by other events and other interests. But today it is self-evident.

The Commission's Report has been influential in securing a wider public hearing for North-South issues

and raising the political level at which they are discussed. The Cancun Summit which brought world leaders together to consider them was the first of its kind and was a direct result of the Report. The leaders present felt that their exchanges had been valuable, but while the Summit helped to keep alive the process of Global Negotiations within the United Nations, it did not make any immediate contribution to resolving the problems of developing countries; nor did it set up any continuing procedure to accelerate negotiations.

The Summit took place in October 1981. Now, more than a year later, there is still little sign of action. The North-South dialogue remains much where it was when the Commission reported. Some modest steps forward have been taken. And some backwards. Meanwhile the world economy continues its dangerous downward slide, and the desperate situation of many developing countries finds no new hope of relief.

Crisis induces an impulse to contract. But this is already a crisis of contraction: contraction of production, of employment, of trade, of credit, of aid, of economic growth. And it is a common crisis; it afflicts rich and poor; market, mixed and centrally planned economies; industrial and agricultural communities. If each country retreats inwards out of an impulse of self-preservation we shall end up hurting each other and worsening both our collective and individual condition. This common crisis demands a collective response—one that must be made with imagination, intelligence and courage, and made quickly. There is not much more time to take the policy measures necessary to avert a major world depression.

This was the background against which Commission members came together and decided to publish a second document, with the aim of raising public consciousness of the gravity of the common crisis and making proposals to redress it.

In doing so we in no way imply any diminution of our commitment to the proposals contained in our Report. They must in our view remain the goals towards which

international cooperation is directed. We attach continuing importance to what we described as a programme of priorities—tasks for the 1980s and 1990s. The Emergency Programme in our Report was not put forward as a substitute for the longer-term programme of priority reforms; nor are the emergency measures in this Memorandum. Indeed, we have been careful to ensure their consistency with those necessary longer-term measures of reform.

Main Proposals

Our proposals are directed to averting world economic collapse and the subsequent chaos and human suffering and to creating conditions leading to world economic recovery. We seek to restore confidence in the banking system; to avoid the strangulation of world trade through increased protectionism and to move it back into growth; to make developing countries more self-sufficient in food and energy production; and to improve the negotiating process between North and South. We insist that longer-term measures of reform will be essential to the international financial and trading system, without which recovery and growth could not be sustained. But our measures constitute the minimum emergency action which we believe nations must now take together.

Finance

Finance is central to most of these measures. We call on governments and world leaders to take immediate action to:

- Increase the resources of the IMF by:
 - (i) a major new allocation of Special Drawing Rights, distributed on a basis which takes into account the particular needs of developing countries in deficit. Such an increase in SDRs, which are essentially lines of credit honoured by IMF member countries,¹ would take into account the deepening recession, reduced inflation, falling reserves,

- declining international liquidity, and the urgent need for recovery—all conditions which, according to the IMF Articles of Agreement, justify new SDR allocations;
- (ii) taking action to secure at least a doubling of IMF quotas;
- (iii) increased borrowing from central banks, particularly those of surplus countries;
- (iv) borrowing from capital markets.
- Make more funds available from the IMF's low conditionality tranches, and from the Compensatory Financing Facility, thereby encouraging countries to come to the Fund earlier.
- Hold an emergency meeting of the Governors of the IMF to consider the above proposals in the light of the first 1983 meeting of the Interim Committee.
- Enable the Bank for International Settlements and the central banks of major countries to give greater assistance to developing countries by extending bridging finance between the time when a country approaches the IMF and when it receives its first disbursement.
- Increase the World Bank group's overall resources for both programme lending and project lending; and facilitate an enlargement of its programme lending, including lending for structural adjustment, by raising its present limit on such lending from 10 per cent to at least 30 per cent of total lending.
- Make a strong commitment to a real increase in funds for the Seventh IDA replenishment.
- Raise aid levels for low-income countries; and implement fully the agreement at the UN Conference on Least Developed Countries, namely, to provide 0.15 per cent of GNP or a doubling of aid to these countries by 1985. This and the Seventh IDA replenishment would be part of an effort to meet the 0.7-per-cent aid target in the space of five years.
- Fulfil earlier undertakings regarding official debt by ensuring that all such debts to all least developed countries are waived.

- Strengthen informal coordination among the IMF, the World Bank, other official lenders and the commercial banks in negotiations on debt rescheduling or to overcome severe financial difficulties, to ensure adequate provision of resources through the support of all lenders.

Trade

World trade is stagnating, and there is growing disregard for the rules of the trading system. This Memorandum discusses the international agenda on trade for the immediate future. But as matters of priority we call for:

- Reinforcement of the undertaking given by industrialised countries at the GATT Ministerial Meeting to resist protectionist pressures.
- Early completion of negotiations for an improved safeguards code.
- Ratification of the Common Fund; negotiation of new International Commodity Agreements; and increased compensation for periodic losses of developing countries' commodity export earnings.

Food

There is grave concern at the growing food deficits in many developing countries and the rapid growth in the cost of food imports. We therefore propose measures to increase and improve resource flows to agriculture, especially through support for national food strategies; to strengthen the system of international food security; to combat ecological deterioration; to support a major expansion of agricultural research, especially for African countries; and to increase food aid while monitoring it to avoid its possible disincentive effect on food production.

Energy

To help developing countries produce more of their own energy, and to reduce instability in world energy markets, we propose: a new energy agency to increase energy self-reliance in developing countries; institutional and financial

support for energy research and the dissemination of its results; and a dialogue between major oil-producing and oil-consuming countries to consider arrangements beneficial to all parties, including safeguarding supplies to the poorest countries.

The negotiating process

Lastly we propose measures to improve the process of negotiation between North and South, which has itself become an obstacle to progress on the crucial issues confronting the world economy. We call for changes in attitudes and procedures on the part of both North and South, including more readiness to negotiate in small groups and on single issues within the framework of universal fora. Given such changes, and more determined leadership by the 'like-minded' countries, we would expect that a new Global Round of Negotiations in the United Nations could bear fruit; and we call for it to proceed. We also propose a second North-South Summit with adequate advance preparation to give new impetus to international economic negotiations. But in the immediate future we call for urgent world economic consultations on the adoption and implementation of emergency measures for recovery and development, bearing in mind the opportunities offered by the Sixth Session of UNCTAD which is to take place in Yugoslavia in June 1983.

The World Economy

The world economy faces its fourth consecutive year of stagnation. It could well contract further. The great majority of the world's countries, North and South, are deliberately restraining economic activity, and are trying to limit imports and expand exports. But they are mainly communicating to each other the ill effects of their policies.

The North

The industrial countries have aimed to control their

inflation and bring it down to the point where inflationary expectations are dampened or if possible extinguished. But many countries have attacked the problem with excessive concentration on monetary control, often accompanied by perverse fiscal policies. And the disregard both of objectives other than the control of inflation and of the international consequences of policy has now produced heavy unemployment and all the symptoms of economic decay. With so little effort at international coordination, the results have been more painful than was necessary.

High interest rates in the United States forced other countries to maintain higher rates than they would have wished, in order to avoid currency outflows and depreciating exchange rates. Mismatch of policies internationally has also caused wide swings in the value of major countries' currencies in recent years, which added to uncertainty and further worsened the climate for investment and trade. A number of countries – particularly those such as Japan and the Federal Republic of Germany whose trade surpluses should have given them more room for manoeuvre – have had to accept unnecessarily restrictive policies, and slower growth. The OECD now forecasts growth at 1.5 per cent for member countries' economies in 1983; but in 1981 they forecast similar growth for 1982, which proved to be a year of decline. Unemployment is forecast to rise to 35 million by 1984.² Certainly without changes in policies and greater consultation and cooperation among countries it is hard to see where more rapid growth will come from.

The South

Industrial economies transmit their troubles to developing countries by a number of routes. Uncoordinated policies in the North to eliminate payments deficits due to oil price increases or to reduce inflation have increased the adjustment burden on oil-importing developing countries. For the poorer countries this burden has been particularly severe because the recession has dramatically reduced their commodity export earnings, and they cannot borrow to

finance deficits. But for other countries too debt service payments have risen steeply as a result of high interest rates, and increased borrowing is becoming difficult to sustain. Even the better-off developing countries are now reducing imports, which further aggravates the recession.

In fact the developing countries today are, with few exceptions, in a desperate plight. With the prices of commodities—the main exports of many countries—at their lowest level for over thirty years, recession and protectionism affecting their exports of manufactures, a slowing up in the flow of commercial capital and aid, their balance of payments problems have reached intolerable proportions. Cutting back on growth is the order of the day—for those countries which have been growing. For numerous countries—especially in Sub-Saharan Africa, where there has been no growth in recent years—lack of capacity to import translates directly into increased hardship, even threatened starvation, for tens of millions of the most vulnerable people.

The developing countries have become part of a wider spiral of contraction which, without remedial action, could drag the countries in the world economy from recession to trade sanctions, withdrawals of credit, competitive devaluations and mutually imposed loss of output far in excess of the restraints many of them have, often prudently, placed on themselves, or, less voluntarily, had thrust upon them.

Finance and trade

Such a contraction is the start of the descent from recession to depression, which shows little sign of being halted. That descent is likely to be hastened by the growing and related difficulties in the world's financial and trading systems. Recession may precipitate a *financial* crisis by creating severe difficulties for commercial banks. When times are hard, companies facing trading losses cannot find bridging finance to wait for better conditions. The weakest go down first. A financial crisis might be defined as the point when the liquidity squeeze on banks becomes

itself a force in the recession, transmitted to the productive economy. The banks begin to deny loans to essentially viable borrowers. This has begun to happen. In the US alone, several thousand companies and thirty-five banks had failed in the first ten months of 1982—the largest number of bankruptcies since the Great Depression. The liquidity squeeze is affecting countries as well as companies—countries with well-managed economies as well as those whose problems are partly self-inflicted.

In 1981 and 1982 the large debts of several East European and developing countries began to prove unmanageable. Some of them have already sought international help. Major corporations too have been forced to call for government assistance. The possibility that other countries could follow, when combined with a number of insolvencies of large and small businesses, threatened to place heavy burdens not only on banks but on national and international financial institutions—burdens which they might be unable to sustain.

At the same time the stagnation of world trade and an increasing disregard for its internationally agreed rules brought other reminders of the 1930s. While world leaders spoke out against protectionism, national politicians called more and more often for protective measures. The European Community was adamant in its unwillingness to contemplate changes in its trade protection. Over its subsidies for agricultural exports, the Community was directly threatened with retaliation by the United States. At the end of 1982, an avalanche of bills for protective measures were before the US Congress. Europe and America complained about trade restrictions in Japan. Perhaps only the fear of retaliation stood between an already deplorable situation and the outbreak of complete anarchy in the trading system.

For the developing countries, the connections between trade and finance made economic management peculiarly difficult. Without adequate finance, imports cannot be paid for; without essential imports, production and exports decline; and without adequate exports, countries are not sufficiently creditworthy to borrow and cannot

service their debts. The combined grip of inadequate trade and finance on their economies has become devastating.

Corrections necessary and unnecessary

All the makings of a major world-wide depression are in evidence – wanted by no one, but made daily more likely by each agent in the scene who tries to protect himself from trouble. Yet it can be prevented. Much of the adjustment in the world economy has been necessary. The industrial countries had to fight inflation – though not necessarily or uniquely by the means they adopted, or with so little effort to coordinate policies internationally. The developing countries had to restructure their economies to allow for the new realities of oil prices and world trading and financial conditions; but several of these countries also pursued policies which compounded the damage inflicted by external factors.

There is an extreme view in some quarters that developing countries have brought all their problems on themselves, that what they mainly have to do is improve their domestic ‘performance’. That is a dangerous and untenable belief. It is true that some developing countries experiencing oil or other commodity booms in the 1970s embarked on ambitious surges of investment (often encouraged by the North as part of the recycling process) which later proved unsustainable. And the syndrome of overvalued exchange rates, lack of appropriate price and other production incentives (especially for exports and for agriculture), and lax credit policies with double- or even treble-digit inflation, can be found in certain countries. Such policies must be corrected. But the unfavourable external environment has exacerbated their problems beyond measure, and is forcing most countries, even many of the well-managed ones, into excessive retrenchment. ‘The developing countries’, as the World Bank President put it, ‘are being battered by global economic forces outside their control.’³

Global adjustment

Thus we identify the major defects in the process of global adjustment as the absence of international coordination of policies, especially among the industrial countries; and the combined weaknesses of the financial and trading systems, which have proved inadequate to cope with the consequences of recession. An excessive share of adjustment is being borne by developing countries. Policies have to be found to redress this situation, to ensure that adjustment is accompanied to a far greater extent than hitherto by growth rather than contraction. They must be consistent with political realities. We believe such policies can be found – not without costs, but with benefits overwhelmingly exceeding them. And the costs of inaction would be vastly greater.

The remaining chapters discuss our proposals and the reasons for them. In the rest of this one, we discuss the causes of developing countries' difficulties; their effects on the North; and the recent record of, and national approaches to, international cooperation.

The Decline in the 1980s: the South

Why have most developing countries been so much worse off at the start of the 1980s than they were in the 1970s? The 1970s also saw recession and inflation in the industrial countries, increases in protectionism, strongly adverse terms of trade; and a sharp rise in the price of oil. Most of the oil-exporting countries benefited; some of the oil-importing countries also adjusted well—they received more back from exports to OPEC countries, or aid and workers' remittances from them, than they paid in additional costs of oil imports. But for many others, the oil price increase was a severe blow, coming on top of increased import prices for food and manufactures; the fall in their export markets made it still worse.

The growth rates of the low-income countries (other than China and India) fell off more than those of the

better-off 'middle-income' countries. Among the latter the newly industrialising countries were less hard hit because they were able to keep expanding their exports, especially exports of manufactures. Though markets were not expanding, they increased their penetration. They were also able to borrow heavily in commercial capital markets, at that time at low or negative real rates of interest, and there was a spectacular growth of private borrowing.

Poorer countries, having mainly primary commodities to export, were unable to increase their foreign earnings. They also suffered more from adverse internal factors, most particularly in Sub-Saharan Africa, where annual growth fell off from 4.0 per cent in the 1960s to 2.4 per cent in the 1970s. Many of these countries were affected by war and civil strife; and drought conditions hurt agriculture severely.

**Growth rates of selected groups of countries 1960-81
(average annual percentage growth of GDP)**

	1960-70	1970-80	1980	1981
<i>Developing countries</i>				
Low-income:				
China and India	4.5	4.9	China - 6.8 India - 6.5	3.0 5.6
Other low-income	4.4	3.5	Africa - 0.4	2.7
Middle-income:	5.9	5.6	3.5	1.7
Oil importers	5.8	5.6	3.7	1.0
Oil exporters	6.2	5.5	3.0	3.3
High-income oil exporters		8.5	4.5	- 11.3
<i>Industrial countries (other than E. Europe)</i>				
	5.2	3.2	1.4	1.2
<i>E. European industrial countries (net material product)</i>				
	n.a.	6.4	2.7	1.8

Source: World Bank, *World Development Report* 1982. ('Low income' is defined as '1980 GNP per person below \$410'.)

Offsetting factors

Nevertheless the 1970s could have been even worse for the low-income countries. There were considerable increases in aid - not least OPEC aid, which constituted one quarter of

all Official Development Assistance during 1975-80. Workers' remittances were very substantial and grew rapidly, easing the balance of payments for a few countries. Others benefited from increased IMF loans, and from brief periods of high commodity prices.

The 1980s began so badly for almost all the oil-importing countries because the offsetting factors were so much weaker. The *better-off* could no longer increase their penetration of markets in the industrial world, which were growing slowly and raising new protective barriers. And their commercial borrowing had to slow down drastically, in part because of their growing liquidity problems. The high interest rates they had to pay while debts rose and exports slumped made banks nervous of continued lending at the earlier levels.

The *poorer countries* were especially vulnerable to the collapse of commodity prices. There was little sign of increased aid – on the contrary, while some donors continued to raise aid flows slowly, others cut back. And the reduction by the US of contributions to the International Development Association (IDA) damaged the World Bank's capacity to assist low-income countries. Workers' remittances from the Gulf were no longer growing as before. Even though most of the poorer countries do not borrow much commercial capital they do borrow some; several have been forced into arrears on outstanding payments on imports. In these circumstances high interest rates – which also apply to SDRs and some other IMF instruments – are burdensome to them too.

Balance of payments squeeze

Stagnation in the industrial world and the oil price increase of 1979-80 have thus been hurting developing countries even more acutely than the external shocks of the 1970s. How severe the situation has become can be judged by the Latin American economies, which still averaged a rate of growth of 6.1 per cent in 1979 and 5.7 per cent in 1980. But the GDP of the oil-importing countries of Latin America and the Caribbean fell by 2.5 per cent in 1981,⁴ and all the

indications are of another fall in 1982. For many of the poorest countries, especially those of Africa, declines were still greater. Thus when population growth is taken into account, incomes per person in most of the Third World have actually fallen.

Some have escaped the worst. A number of East Asian economies have grown quite strongly in the recent past. India, helped by its successful agriculture, which reduced the need for food imports, and a large IMF loan, is growing at a faster rate than its past average performance—its foreign sector, though important, is relatively small. However, India still faces daunting problems; and its exchange reserves have been falling since 1981. China too, with a high degree of self-sufficiency and high investment rates, has weathered the storms relatively well, but also has difficulties to confront on an awe-inspiring scale.

In general, balance of payments constraints have forced most developing countries to put on the brakes, reducing already low growth rates to intolerable levels. The implications are especially harsh for the poorest countries, a number of which already had negligible growth or even falling output in the 1970s. Growth at an even slower rate means no escape from poverty, and increasing instability, which in turn further impairs economic progress. The fall in the price of oil after 1980 has been modest both compared with its preceding rise, and with the loss of export earnings, especially from commodities. Many countries depend on export or import taxes for the budgetary revenues which pay for health services, education or nutrition programmes. New investments to improve agriculture or start new factories are difficult—even existing investments cannot operate at capacity as the economy begins to run out of imported necessities: spare parts for vehicles, essential drugs, even food or fuel. Efforts to develop human resources and combat hunger and disease have to be curtailed.

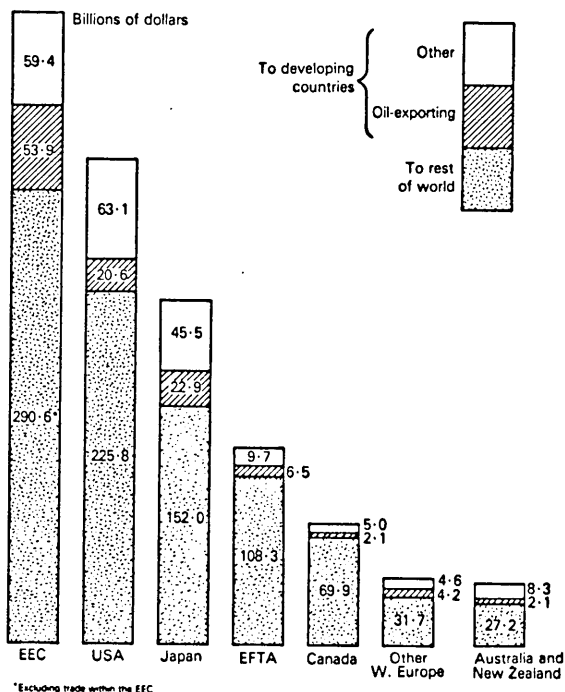
The Effects on the North

Our Report emphasised the economic links between North and South. In the 1970s the developing countries' imports from the North, partly financed by their commercial borrowing, helped to prevent the recession in the industrial countries from getting worse, sustaining their production and employment. One study described the effect as equivalent to a significant reflation of the West German economy.⁵ Today that effect is reversed; the downturn of growth in developing countries deprives Northern exporters of their markets; and the decline in developing countries' imports is accelerating as major countries in Africa and Latin America run short of foreign exchange. Even more dangerous, as we have seen, the plight of these countries threatens the international financial system itself.

The Mexican crisis of the summer of 1982 has given an ample demonstration of the facts of interdependence. The difficulties faced by Mexico's economy posed a serious threat to commercial banks and to private foreign investors. The political and economic consequences to the United States in particular could have been dire. At the end of 1981 American banks had the largest share of bank loans to Mexico – \$21 billion out of a total of \$57 billion owed by Mexico to foreign banks. The potential consequences of default by Mexico or the failure of a large US bank were too disturbing to contemplate. The cutback in Mexico's imports hurt exports from the US and many other industrial countries. Economic chaos in Mexico could lead to massive migratory pressures in Texas and California. Not surprisingly, the United States played a major part in initiating the swift action that was taken by the Bank for International Settlements, the International Monetary Fund and the central banks of major Western countries, and took additional measures of its own, including a large advance purchase of Mexican oil for the US strategic reserve.

A recent calculation by the Morgan Guaranty Trust Company has suggested the magnitude of the possible effects of the banking crisis.⁶ It considers two scenarios, in which bank lending to non-OPEC developing countries either stops growing completely, or slows to 10 per cent growth (both compared with 20 per cent growth): in the latter case OECD countries' economic growth is cut by ½ a per cent; in the former, 1 per cent. Most of this would occur because of the fall in exports from the OECD countries to the non-OPEC Third World, whose economic growth would be cut even more.

Exports of selected Northern economies 1981 (US \$ billion)



Source: UN *Monthly Bulletin of Statistics*, May/June 1982.

Opposite is a chart showing the exports of the main Western economies to developing countries. The value of these exports to *all* developing countries is considerable, nearly \$308 billion in all – over \$113 billion for the EEC, nearly \$84 billion for the USA, \$68 billion for Japan – or over a third of these countries' exports (not counting intra-EEC trade). And the value figures would have been considerably higher had trade in 1981 grown at rates comparable to those of previous years. This trade had been growing rapidly; the 1981 figure for the EEC, for example, actually represented a decline of \$4 billion from 1980, compared with growth of an average \$15 billion a year in the three previous years. These figures translate into employment – thus 5 per cent of all jobs and *one industrial job in six* in the USA depends on exports to the Third World; in several other countries where trade makes up a higher proportion of total production the figure is even larger. What is at risk for the North is plain to see, if the downward trend of flows of finance and trade with the South is not reversed.

There may still be a few who need convincing that the North will suffer if no action is taken to help the South. But today we do not have the sense that we are addressing an unreceptive audience. It is increasingly obvious that we are all in the same boat, that the North cannot contemplate with unconcern the fact that the South's end of the boat is sinking. The North's end of the boat is already none too buoyant either.

North–South Cooperation 1980–82: Advances and Setbacks

In the first three years of the 1980s, what has been the record of North–South cooperation? Since the Report was published there has only been very modest progress on our Emergency Programme.

- Aid to the poorest countries increased, though not adequately. At the UN Conference on the Least

Developed Countries in 1981, most donors committed themselves to substantial further increases, though the commitments were not precise.

- The IMF expanded its lending considerably, for a time with a more flexible attitude towards conditionality. It also extended its Compensatory Financing Facility to cover cereal imports.
- The World Bank initiated a programme of structural adjustment lending.
- The UN Conference on New and Renewable Sources of Energy agreed on a programme of action in 1981.
- A new Food Aid Convention raised the minimum quantity of food aid from 4.2 to 7.6 million tons, and agreement was reached on replenishing the resources of the International Fund for Agricultural Development, IFAD.

This brief list of items on which some advance took place must be set against the rather longer list of no advance or actual defeat of expectations. That includes the reduction of funds for the International Development Association, IDA, the World Bank's concessional lending arm; the retreat from negotiating an effective International Wheat Agreement; the objection of a number of Northern governments to the sea-bed mining provisions of the Law of the Sea, which so far has prevented their signing the code; worsening trade conditions, including a renewed Multi-Fibre Arrangement more restrictive in application than its predecessor; virtually no progress in any area of commodity trade. And most of the above 'advances' were severely limited:

- After mid-1981 the IMF hardened its lending conditions and a number of credits had to be cancelled in the first half of 1982. There was no new SDR allocation, and the Trust Fund was exhausted. Only towards the end of 1982 did the IMF begin to increase lending again.
- The World Bank's structural adjustment lending remained restricted by its rule that not more than 10

- per cent of its loans be used for non-project lending.
- In June 1982 a follow-up to the UN Energy Conference failed to agree on funding or procedures to implement the plan of action.
 - At the end of 1982, the United States contribution to IFAD still awaited Congressional legislation, putting in doubt the whole replenishment 'package'.

Strains in the financial system

In September 1982 the world's Finance Ministers and numbers of senior bankers and officials met in Toronto for the Annual Meetings of the World Bank and International Monetary Fund. Many speakers vividly described the problems of their countries and the dangers to the world's financial system.

Yet the results of the meeting were meagre. There was an agreement that the conclusion of negotiations to raise the IMF's quotas should be moved forward to April 1983, though there was no agreement on the size of increase, nor any action on SDR creation despite repeated pleas from the Group of 24, a body representative of developing countries. The United States proposed the setting up of an emergency fund for relief of indebted countries in financial distress. This was greeted with suspicion by many countries since it seemed to be designed to operate selectively and to attempt to bypass the quota issue – which will be discussed further below. But some merits were also noted (not least that it could come into operation faster than quota-related lending), and the Fund's Managing Director made clear that the proposal would be seriously studied. The Executive Board was also asked by the Interim Committee to 'assess the adequacy of existing arrangements to deal with major strains in the international financial system'.

There was also some movement on IDA funding. With the spread of the US commitment over four years instead of three, the possibility of IDA being acutely short of funds in 1984 was real. Since IDA is the principal source of lending for poorer countries – apart from bilateral aid – this was a grave matter. The poorer countries borrow

little from commercial banks, but the international recession hurts most of them worse than the better-off nations. In the event arrangements were made to ensure a reasonable level of IDA resources for 1984, largely through an additional commitment from non-US donors which would partially cover the hiatus between the sixth and seventh IDA replenishments caused by the US action.

But altogether the Toronto meeting left countries and banks only modestly, if at all, reassured. A sense of urgency had been conveyed, and the US proposal for an emergency fund had been put on the table. But a clear set of measures to turn the situation round was not identified. While there were reports of serious concern behind the scenes, there was little public recognition by the major industrial countries or the IMF management that any change in the institutions' policies was called for. On the contrary, the usual hymns to the virtues of rigour and discipline were sung with particular fervour.

The world's financial leaders did not see any way out of the international recession and could only resolve on the mixture as before, which was already making things worse rather than better.

The international institutions were in the strange position of advising developing countries to solve their balance of payments deficits by deflation and devaluation, by outward-oriented and export-led strategies, at the same time as the restrictive programmes recommended for both North and South were making it impossible for them to succeed: the recipe might be carried out successfully by any one country; but not by all. If they begin to follow such advice, the result is only to plunge all countries into even greater difficulties.

Under pressure of events, however, the climate of opinion for some movement on finance was changing with remarkable speed by the end of 1982. The possibility of an agreement on IMF quotas even before April 1983 was widely reported, and the US proposal for an emergency fund seemed likely to take the form of an extension of the IMF's General Arrangement to Borrow. But it was far

from clear that the various responses would be adequate or satisfactory. And in particular, while it began to seem likely that rescue operations would be mounted for the big borrowers just because they put Northern banks at risk, there was no sign at all of additional initiatives to relieve the plight of poorer countries.

The GATT Ministerial Meeting

The GATT Contracting Parties met at Ministerial level in November 1982 for the first time in nine years. It was, of course, not a 'North-South' occasion, though it had profound implications for developing countries. The background to the meeting was the unfinished business from the Tokyo Round of the Multilateral Trade Negotiations and more importantly the threat posed to the international trading system by the increasing adoption of 'new' protectionist measures, increasing disregard for the GATT rules and disciplines, and growing recognition of the failure of the GATT system to meet new demands on it.

The meeting was able to obtain a 'commitment' to the maintenance of an open trading system; but whether this was strong enough to resist growing domestic pressures for protection in the industrialised countries remains to be seen. The adoption of an improved safeguard system remains postponed; it would have reinforced the commitment to avoid protectionist measures and paved the way for progress in dismantling the panoply of orderly marketing arrangements and voluntary export restraints. Improved procedures have been adopted for dispute settlements; but in other important areas such as agriculture, and textiles and clothing, all that has been achieved is the setting up of studies.

While these studies could no doubt help in providing guidance for progress, the action taken at the GATT Meeting was inadequate in timing and scope in relation to the increasing threat of breakdown of the whole international trading system and the need to ensure expanded trading opportunities for developing countries

which would enable them to pay their way and resuscitate their economies. Worst of all what might have been an occasion for a 'ceasefire' on protectionism might do little to prevent an all-out 'trade war' – which no one can win.

Northern approaches

This sorry tale of steps backwards and forwards contrasts strangely with the forthright words of the seven Western heads of government who met in Versailles in June 1982. On North–South cooperation, the Summit communiqué had this to say:

[On trade:]

We are resolved to complete the work of the Tokyo Round and to improve the capacity of the GATT to solve current and future trade problems. We will also work towards the further opening of our markets. We will cooperate with the developing countries to strengthen and improve the multilateral system, and to expand trading opportunities in particular with the newly industrialised countries. We shall participate fully in the forthcoming GATT Ministerial Conference in order to take concrete steps towards these ends.

[On North–South cooperation generally:]

The growth of the developing countries and the deepening of a constructive relationship with them are vital for the political and economic well-being of the whole world. It is therefore important that a high level of financial flows and official assistance should be maintained and that their effectiveness should be increased as far as possible, with responsibilities shared broadly among all countries capable of making a contribution. The launching of global negotiations is a major political objective approved by all participants in the Summit. The latest draft resolution circulated by the Group of 77 is helpful, and the discussion at Versailles showed general acceptance of the view that it would serve as a basis for consultations with the countries concerned. We believe that there is now a good prospect for the early launching and success of the global negotiations, provided that the independence of the Specialised Agencies is guaranteed. At the same time, we are prepared to continue and develop practical cooperation with the developing countries through innovations within the World Bank, through progress in countering instability of commodity

export earnings, through the encouragement of private capital flows, including international arrangements to improve the conditions for private investment, and through a further concentration of official assistance on the poorer countries. This is why we see a need for special temporary arrangements to overcome funding problems for IDA VI, and for an early start to consideration of IDA VII. We will give special encouragement to programmes or arrangements designed to increase food and energy production in developing countries which have to import these essentials, and to programmes to address the implications of population growth.

In the field of balance of payments support, we look forward to progress at the September IMF Annual Meeting towards settling the increase in the size of the Fund appropriate to the coming Eighth Quota Review.

Did the Summit powers mean what they said? They were certainly in no hurry to follow it up. Except for limited moves towards the increasing of IMF resources, little or no progress has been made in these areas. And, both among the seven powers at the Summit and in the industrialised world generally, national approaches to development do not give ground for optimism.

Within the past year, it is true, the EEC Commission formulated some fresh approaches for the European Community's cooperation with developing countries which are imaginative and sensitive to needs. They include improvements to the facilities of the Lomé Convention; new forms of trade and financial cooperation with non-ACP countries; a GNP-related target for aid provided through the Community; and priority action to assist developing countries, especially the poorest, in attaining food self-sufficiency. But these proposals are yet to be welcomed by member countries of the Community and initial signals have not been promising. Indeed, at the recent GATT Ministerial Meeting, Europe's protectionist stand cast a shadow between expectation and performance in the vital area of international trade.

While we expect much from Europe, we do no less from the United States and would look with dismay on the

possibility of a new commitment to international development in which the United States does not wholeheartedly join. Yet as anyone reading this document will observe, in a number of areas where there had been progress, the United States in the past months has played a negative role. It has given up its earlier position as a leader of the West in cooperation for development. It still has the world's largest aid programme, but one of the lowest as a proportion of national income. Yet while it has cut back on aid, it has also gone back on commitments of previous administrations in some fields and hindered international accord in others. We strongly believe—as do many Americans—that important United States interests are served by the system of international cooperation: by the multilateral agencies; by the UN family; by bilateral assistance programmes and by the international machinery of consultation on trade and financial matters. We urge the United States in its interests, in all our interests, not to turn away from these cooperative enterprises, but, on the contrary, to act once more in keeping with its size and power as an enlightened leader of the world community.

And there are other industrialised countries like Japan and some of the developed countries outside the European Community that have prosperous economies. Some are among the most progressive of the North in development cooperation; others could do much more. They have declared their interest in intensifying their cooperation with the Third World, and have taken some positive steps in this direction. They should now accelerate the progress of recent years.

The role of the East

And, as in our Report, which aroused some expression of interest in the Soviet Union and Eastern Europe, we again call on these countries to play a more active part in North–South issues. At present there are divisions in the West—fundamentally, divisions over whether closer economic ties between East and West will lead ultimately to a lessening of international tensions, or whether the West

should try to influence the East's policies by inflicting economic penalties on them when displeased with their actions, or by tying increases in economic cooperation to cooperation over other issues. As long as this debate is unresolved, progress on many matters close to our preoccupations—not least that of disarmament—will be difficult. But at certain points in the present document we observe that East European countries should assume a more significant role in international discussions—on trade and finance, and perhaps most particularly on energy and on food where they have a strong interest. We also urge them to expand their aid and trade with the Third World, which are presently modest. We are well aware of all the familiar obstacles. Yet the desirable objectives of world development cannot be attained if a large section of the industrial world continues forever to pursue a separate path.

Political Dangers

So far we have referred only to economic interests which are shared by North and South. Yet they also share strong political interests in the proposals we put forward.

These political interests are based on the fact that development—widely shared development—is a condition for national and international stability. Some would argue that the major sources of international conflict do not have their origins in poverty but rather in such things as East–West tensions, conflict in the Middle East or Southern Africa, rebel movements, territorial claims. But such views only take the argument half-way. While many causes underlie conflict and instability, failure of development often provides the conditions in which they can originate and flourish. Indeed the President of the United States recognised this in recommending his 'Caribbean Basin Initiative' to Congress: he said the countries concerned were faced with 'economic disaster', and the region's economic misery 'would be exploited by extremist groups'. Yet even this 'Initiative' remains a promise.

Financial and economic crises that lead to weak or falling governments are often the result of inadequate or inequitable development. In the political vacuum which may thus result a country can become vulnerable to outside interference, which then contributes, as the Report said, to East–West tensions. Who is to say whether the recent history of Afghanistan might not have been very different if its development had produced a strong economy and a viable government capable of resisting outside interference? Yet in the decade before the Soviet intervention it was one of the lowest aid recipients for its size and poverty.

Certainly the situations of that country and many others now call forth military expenditures well in excess of anything that was ever provided to promote their development—development which might have forestalled political crisis. There was a time when aid was seen as a competition for the allegiance of developing countries between the major powers of East and West. Commission members did not and would not endorse a return to anything resembling that competition. But we do see one of the main purposes of development—and of international cooperation for development—as the creation of nation states capable of sustaining their own political independence. That is among the essential foundations of international stability.

The example of drugs

One example of the dangers of the failure of development is drugs. Of course the problem has many dimensions of which the criminal element is much the most significant and the most dangerous. But as far as supply is concerned, the poverty of rural areas of one or two Asian and Latin American countries is a key factor. Thousands of people in such areas turn to growing the plant sources of cocaine, marijuana or opium for want of alternative livelihoods—even when cultivation of these plants is illegal. Once again it is a situation where neglect leads to the costs of ‘cure’ being many times those of prevention—the costs, before remedial action is taken, being reckoned in crime,

corruption, violent death and ruined lives. The need is now for measures of control. But the only real remedy at the supply end is for poor people to have better ways to make a living. The international economy plays its part too – for one or two countries exports of these substances bulk very large in foreign exchange earnings and are difficult to replace. We spoke of this subject in the Report. The situation has become much worse. Once again the message is that the consequences of failure of development can spread far beyond the areas where that failure occurs; and that the resources for development which would have prevented the problem from becoming so serious are but a fraction of those needed to cope with it once it emerges.

Equity and stability

The origins of political instability are indeed highly complex and economic development cannot be guaranteed to eliminate it. In fact highly unequal development, development which creates and defeats new expectations, or passes by significant sections of a country's population, can foster instability. But development which relieves men and women from the indignity of poverty, which replaces social deprivation with social justice, will work in the opposite direction. Supporting equitable development is both morally preferable to and less expensive than the military and other measures its absence may make necessary.

Disarmament

Another aspect – and a grave one – of the worsening of the international environment during the last three years has been the increase in arms production and expenditure. We refer to the economic role of armaments in the next chapter. But the complete failure of the UN Special Session on Disarmament in the summer of 1982 was one of the most dispiriting of recent events. In 1980 we spoke of world military expenditure of \$450 billion. By 1982 it was \$650 billion.

Our Report went into some of the questions of

armaments and the relation of disarmament and development. Since it came out, there have appeared the excellent reports of the United Nations Expert Group on Disarmament and Development and *Common Security*, the Report of the Palme Commission on Disarmament and Security Issues. The latter deals with technical aspects of disarmament and its global political setting, including a number of valuable proposals bearing specifically on Third World security.

It is beyond the scope of the present document to enter into these issues in detail. All we can do is to add our plea to theirs: that genuine disarmament be pursued as the first priority of international action, to rid the world both of the growing insecurity of the proliferation of weapons, and of their unacceptable costs, which now pose a serious threat to several industrial and developing economies.