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PROGRAMME OF ACTION ON THE ESTABLISHMENT OF
A NEW INTERNATIONAL ECONOMIC ORDER

Note by the Secretariat

The Special Representative of the Secretary-General for the United Nations Emergency Operation, Dr. Raúl Prebisch, submitted to the Secretary-General a report, dated 22 October 1974, on the triangular recycling of financial resources from oil-producing countries and the restructuring of world trade, which is circulated herewith in connexion with the Committee's consideration of the report of the Ad Hoc Committee on the Special Programme (E/5590).

THE TRIANGULAR RECYCLING OF FINANCIAL RESOURCES FROM OIL-PRODUCING
COUNTRIES AND THE STRUCTURE OF WORLD TRADE*

I. Summary of contents

1. In order to face the present crisis it is to be hoped that, among other measures, the surplus resources accruing to the oil-exporting countries be recycled in one form or another to countries having serious imbalances in their external payments.
2. This temporary arrangement, which can help both the industrial centres and developing countries, cannot, however, continue for an indefinite period of time. A basic solution must be found, a dynamic solution firmly rooted in the expansion and restructuring of international investments and world trade.
3. For this purpose it is necessary to combine the efforts of the developed countries, the oil-exporting countries and the developing countries.
4. In the meanwhile, it is in the interest of the whole world for this temporary recycling operation to be successful. If this does not happen, the deficit of the industrial centres, aggravated by a growing inflation, would drag many countries, if not all, into an economic and social turmoil, the repercussions of which are beyond calculation.
5. But the developed countries do not need to import capital except to cope temporarily with this payments crisis, because they have a great potential for capital accumulation. On the other hand, the need of developing countries to import capital is imperative. It would therefore be desirable for an increasing proportion of these oil surpluses to be channelled to them, not only to face the immediate payments crisis but also for long-term development purposes. This would enhance their capacity to import productive goods and other goods from the developed countries. And this will gradually contribute towards correcting their deficit with exports and not through indebtedness which would really be unnecessary after the present difficulties have been overcome.

* The ideas contained in this report have been briefly outlined in the statement of the Special Representative of 22 July 1974 to the Economic and Social Council at its fifty-seventh session, during the discussion of its agenda item 4, Programme of Action on the Establishment of a New International Economic Order (E/L.1610).

For the sake of brevity the term "developing countries" in this report refers to the non-oil-exporting countries. The concept "industrial centres" is used at times in the text as equivalent to developed countries.

The word "recycling" is used in a purely technical sense, without any other implication.

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6. Such is the indirect or triangular recycling which is proposed in this report. It responds to an appropriate combination of interests of the three groups of countries mentioned above.

7. The use of surpluses which the oil-exporting countries could make available in the form of loans to and investments in the developing countries and a more intensive mobilization of the internal resources of the latter, would enable them to maintain and accelerate their rate of growth, which is indispensable for solving their internal problems, that have been growing increasingly more acute.

8. As is well known, this acceleration in the rate of growth of developing countries would require a persistent increase in their over-all imports (in addition to those which would be financed by the use of surpluses from oil). For this purpose, developing countries will have to speed up the rate of growth of their own exports.

9. As things stand, possibilities of doing this are not, however, promising, because there is every indication that it will not be possible for the industrial centres, at least for some years to come, to recover the extraordinary growth rates they have enjoyed in recent times.

10. On the other hand, there is an enormous potential for trade among the developing countries. The oil-exporting countries can make a substantial contribution in exploiting this potential for the benefit of all. To do this, it is necessary to formulate an investment programme into the framework of a policy of trade liberalization embracing subregional or regional groups of developing countries (and between these groups), and also to establish payments agreements that will encourage expansion of trade with reciprocal advantages to the participating countries. Here again, triangular solutions are required.

11. As the developed countries have been reluctant in the past to give greater impetus to financial co-operation with developing countries, it is unlikely that there can be any fundamental change of attitude in them, so long as they do not manage to rectify their external disequilibrium and slow down inflation. But in the meantime they could help through various measures designed to attract oil financial resources to the developing countries, especially in the case of the weakest or the hardest hit among them. This help from the industrial countries would be justified not only for reasons of international solidarity, but also and primarily because of the great benefits which the triangular solution would bring to the developed countries.

12. Furthermore, it would be highly desirable that the developed countries participate, with their vast experience and technological capacity, in the aforesaid new policy of investment and trade expansion.

13. World-wide inflation is aggravating the characteristic weakness of the primary exporting countries. Notwithstanding their usefulness, market forces cannot counteract this weakness nor solve the problem of non-renewable natural resources,

nor overcome the grave food crisis which is due not only to population growth but also to underdevelopment itself. Indeed, very little technological research in agriculture has been done, particularly in tropical countries, and this has been one of the principal reasons for the small growth in agricultural productivity. A vigorous primary commodity policy is necessary.

14. In the light of the foregoing, a distinction should be made between balance-of-payments requirements and development financing. In the case of the developing countries, the present balance-of-payment needs, after growing in the next few years, will have to diminish progressively as it becomes possible to cover the deficit through rising exports.

15. The requirements of development financing, on the other hand, are such that greater resources than in the past will be needed just to maintain the growth rates of recent years. The resources will have to be even greater if these rates are to rise as would seem necessary in many cases, in order to absorb the increment in the labour force at a growing level of productivity, and to improve the precarious income distribution that is prevalent on the periphery of the world economy.

16. Serious discrepancies between industrial centres and peripheral countries have characterized the world process of development. The present crisis tends to accentuate those discrepancies and, to deal with this problem, temporary readjustments will not suffice. Some basic solutions must be found. Reluctance to face up to this new reality may lead to disastrous consequences for all.

17. Be it as it may, this crisis has had one redeeming feature: it has brought dramatically into the forefront situations which were not clearly apparent. Furthermore, it has brought to light a concept of world interdependence which was frequently overlooked in the relationships of the centres with the peripheral countries during the period of extraordinary prosperity recently enjoyed by the former.

18. These are the problems which I thought it advisable to outline in very general terms in this short report. They are problems which, together with others, have prompted that enlightened conception of the New International Economic Order referred to by the General Assembly at its recent sixth special session.

II. Emergency Operation

19. In resolution 3202 (S-VI) of 1 May 1974, the General Assembly requested the Secretary-General to establish an Emergency Operation for a 12-month period as a first step within the framework of a long-term and ambitious Special Programme, which included the establishment of a Special Fund as of 1 January 1975. This does not mean that it was thought that the payments deficit of the peripheral countries would last for so short a time. There is every indication that the deficit will continue for an extended period, and this is probably one of the reasons why the General Assembly decided to establish the Special Fund which should start its activities early next year.

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20. Meanwhile, in carrying out the Emergency Operation, the Secretariat has limited itself for the time being, to considering a list of hardest hit countries which not only have a very low per capita income but must also meet essential imports while lacking the requisite resources for payment. The resulting balance-of-payments deficit has been estimated at some \$2,300 million for this year and a similar amount for 1975 (these figures are obviously subject to change). The countries in question are among those whose income is under \$400 per capita and most of them less than \$200.

21. The other developing countries (excluding, of course, the oil-producing countries), have a deficit which, when added to the above-mentioned figure, would bring the total close to some \$10,000 million per year. In spite of that, the exclusion of these countries from the list is justified for the moment. Actually, they are countries which have sufficient exports to offset the rise in the prices of imports or which have adequate monetary reserves. Again, in many cases they are countries which have access to loans on the Eurodollar market and to the oil and other special facilities of the International Monetary Fund.

22. But this situation is, of course, of a transitory nature, and in the not very distant future it will also be necessary to address ourselves to the requirements of some of the countries that have not been included in our list and to extend the emergency operations to them either through the new Fund, if it has sufficient resources, or through other arrangements.

III. The triangular recycling of surplus earnings from oil

23. Developed countries are making great efforts to have the surplus earnings from oil flow back to them in order to face their external payments deficit. Given the seriousness of this situation, it is in the interest of all countries for this aim to be achieved. Moreover, it is to be hoped that the progressive reduction in this deficit will enable the developed countries to play a more active role in helping developing countries to solve their present difficulties.

24. It is quite clear, nevertheless, that the basic solution must be of another kind. As stated above, the developed countries have a great capital-formation potential and do not need to import capital in order to continue their development. Their need of capital is of a temporary nature, for the period during which they are unable to increase their exports to compensate for the higher cost of imports.

25. But let us have in mind this simple fact: industrial centres cannot solve this problem by trying to expand their exports to each other. This goal can be reached only through more exports to the rest of the world:

First, to respond to the increasing import needs of the oil exporters themselves, for their own development;

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Secondly, to the developing countries, if they are able to attract an increasing proportion of the surplus resources of the oil-exporting countries. These resources, supplied to the developing countries in the form of loans and investments, will allow them to increase imports from the industrial centres of capital and other goods necessary for their development. Therefore, the recycling would not take place directly but indirectly, through additional exports of goods needed by developing countries.

26. This would be the soundest form of recycling and its advantages are obvious:

Developing countries would have at their disposal additional financial resources to face the increasing needs for imports, required by their development:

The industrial centres would receive resources flowing to the oil-exporting countries by means of an increase in their exports rather than through the inflow of financial resources involving continued indebtedness; 1/

The oil-exporting countries would find a wide and diversified productive outlet for their financial surpluses that would give them a permanent source of future income.

27. Very understandably, due to the pressure of circumstances, developed countries lay stress on the direct recycling to them of the earnings from oil and have not considered this other form of indirect or triangular recycling. It has to be recognized however that this triangular recycling requires time and careful preparation. It is also justifiable that the oil producers prefer at present to start the recycling of these resources, in one form or another, to the developed countries, where there is a whole financial infrastructure ready to receive them up to a certain limit.

28. Direct recycling is of fundamental importance in a period of transition as it was said before. But if it were to be extended for a long time, a great opportunity would have been lost for contributing to the change in the international economic order.

29. The fulfilment of the objective of General Assembly resolution 3202 (S-VI) makes it necessary to formulate a new policy of co-operation both in trade and in finance, as well as in technology.

30. The extraordinary shift of a large part of the world's financial power to the oil-exporting countries offers a great possibility for promoting this change.

1/ We have to have in mind that the increase in exports of developed countries does not necessarily correspond to their balance-of-payments deficit. This is a matter which concerns the fluidity and efficiency of the world monetary system and it has been the subject of considerable discussion in international forums.

31. The oil-exporting countries thus have a historic opportunity to participate actively in the building of a new order. But they could not be asked to do this if this change was not clearly and effectively consistent with the interests of their own development. This is a point of the utmost importance which must be clarified.

32. The oil-exporting countries, with great foresight, are thinking of their future, of their own transformation. They are very well aware that the oil reserves will go on diminishing and are preparing to cope, sooner or later, with the reality of their ultimate exhaustion as well as with the appearance of new forms of energy and the improved use of present forms in consuming countries. This foresight is manifested in two main forms. First, oil producers propose actively to promote their agricultural production and industrialization, together with the relevant infrastructure. Secondly, they are bent on finding productive uses abroad for their surplus resources which, with the passage of time, will compensate for the weakening of their oil exports.

33. If we look towards the future we will see that the geographical spread of loans and investments from oil earnings over the wide range of developing countries is extremely important, because it involves new power relationships that are very different from those of the past. There is no doubt that the oil-exporting countries have acquired considerable power. But this power would diminish as the global dependency on oil imports lessens in the future. Certainly there will be no return to the previous state of affairs, but in the course of time, power relationships will most likely favour the industrial centres. This brings out clearly the importance of the option now open to the oil-exporting countries to diversify their financial operations. In the future play of power relationships, it will make a very great difference whether the surplus resources from oil are concentrated mainly in the centres or whether they are spread more and more over the periphery. This is the present option for oil exporters: concentration or plurality.

34. If it were possible to channel a growing amount of the surplus resources from oil to the developing countries, some headway will have been made in solving a problem which, like others connected with international co-operation, has long remained unsolved and indeed grown worse. I am referring to the transfer of financial resources from the developed to the developing countries. As was frequently remarked in the early 1970s, when the General Assembly recommended an official net transfer equivalent to 0.7 per cent of the gross national product of the developed countries, the proportion was 0.51 per cent. In 1973 it had dropped to 0.30 per cent.

35. The pressure for internal redistribution of income which inflation has brought in its train in the developed countries and their external payments deficit gives us little reason to hope for an early and substantial improvement in this situation. But this objective should in no way be forgotten. It should not be interpreted as meaning that the co-operation of the developed countries would cease to be necessary in the next few years. Quite the contrary. It may be very important.

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36. It was stated above that the developing countries most affected by the crisis will continue to need financial assistance until they can raise the level of their exports in order to cover the higher prices of their imports. It was also said that the other developing countries, while not experiencing serious balance-of-payments difficulties for the moment, would not be free from them much longer. Thus, whereas in the past it was necessary to include elements of concessionality with respect to interest and amortization to the most needy developing countries, this will be much more necessary in the future, at least for an extended period of time.

37. Furthermore, certain operations being carried out in one form or another with surplus resources from oil (directly or through the International Monetary Fund and the Eurodollar market) are for periods of time which, because of their relative shortness, are bound to create a serious problem in many cases. It will be necessary to consolidate these debts by granting long repayment periods and low rates of interest to face critical situations.

38. The same comment applies to loans for financing development plans or projects. It is common knowledge that a large number of developing countries are overburdened with heavy amortizations in addition to other financial outlays. No matter how this problem may be solved, care would have to be taken to prevent the mistakes and lack of foresight of the past from recurring in the financing of the next few years.

39. So we come back to the surplus resources from oil. The emergency operations being carried out with these resources contain substantial elements of a concessional character, but this aspect should be considered with equanimity. The oil-exporting countries are not rich countries. They have ahead of them tremendous problems of development and, taking a realistic view of the future, they are concerned about the yield from the surplus earnings they lend or invest beyond their frontiers. They cannot therefore be expected to be the only ones to carry the burden of concessional aid to the neediest developing countries, both with regard to balance-of-payments aid and long-term economic development financing.

40. Here is where the co-operation of the developed countries could play an important role during the next few years without detriment to the target of 0.7 per cent. It was stated above that the triangular recycling of surplus resources from oil - through the developing countries - would help progressively to cover the external deficit of the former countries with the growth of their exports. The relationships of interdependence at the international level are very clear here.

41. The developed countries will be able to solve the serious problem of their deficit in the only sound way of doing so and it is therefore legitimate to ask them for their co-operation. It is thus conceivable that, while adverse circumstances may make it temporarily difficult to reach the 0.7 per cent target, none the less they may be able to co-operate in other ways:

One way would be to grant an interest rate subsidy, not only in their own operations but also in the operations carried out with surplus resources from oil. The impact of this subsidy on their balance of payments would be relatively small in relation to the positive effect of the triangular recycling:

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Another would be to participate in a system of guarantees, especially in the case of the weakest developing countries or those undergoing periods of great strain.

42. I do not intend to elaborate on this at this moment, but to underline that the main thing is to arrive at a three-sided policy on this subject which would combine the efforts of all the parties involved: the developed countries, the oil-exporting countries and the developing countries.

43. So far as the last-mentioned countries are concerned, one major preoccupation should be mentioned. While it is true that international financial co-operation has been very precarious, it is no less true that the developing countries in general have not played a very outstanding role in the mobilization of their own resources. Indeed, those countries that could have done so have not sufficiently used their potential for capital accumulation. The consumption society is spreading in developing countries through the imitation of the consumption patterns of the industrial centres. This happens not only in the upper but also in the intermediate social strata which has growing aspirations of consumption. All of this is detrimental to the domestic capital formation required in order gradually to eliminate the society of under-consumption in which a considerable part of the population has been left behind. The domestic capital-formation potential must therefore be included in the triangular effort to finance development.

44. Summing up what I have said in this section, there is an important role to be played by the three groups of countries in mobilizing resources to maintain and accelerate the rate of growth of developing countries, and to fulfil an objective that has not been obtained before. The financial resources in the hands of oil exporters make possible a larger transfer than in the past to developing countries. This is however not a simple problem. Yet, at the international level as well as at the regional and subregional levels considerable experience has been gained in this matter and there is also a growing consciousness of some of the short-comings of this experience. Owing to the nature of this report, I have not entered into this aspect nor into the role that the Special Fund may play.

45. In relation to the transfer of financial resources from oil, let me mention the importance for developing countries of having this source independent from the transnational corporations. Here there is a great opportunity for strengthening the now very weak bargaining power of developing countries. Indeed, the latter and oil exporters may form joint ventures, either through private initiative or government participation, or a combination of both, for the exploitation of natural resources and the establishment of basic industries. Industries that could play an important role in exports of manufactures for the promotion of reciprocal trade between developing countries and for export to the centres. In all this, the latter could have an important role to play either through participation in these joint ventures giving them the true multinational character that they now lack, or through service contracts, or through special forms of transfer of technology. One may conceive therefore different ways of three-sided co-operation.

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46. As is well known, oil exporters are now entering into very interesting agreements with developed countries to obtain the proper transfer of technology geared to their own development needs. This should be welcomed, and if this is extended in one way or another to the developing countries, it would contribute towards paving the way for these new forms of three-sided co-operation.

47. The soundness and security of these new forms of three-sided co-operation, in which different interests converge, will depend not only on the basic terms on which they are made but also on the establishment of new ground rules for avoiding the mistakes and abuses of the past, especially as regards the exploitation of non-renewable natural resources. This has been a matter of great concern in recent times to the United Nations. 2/

IV. Structural changes in international trade

48. Experience has clearly shown that the industrialization of the developing countries cannot take place effectively, at a reasonable cost, in watertight compartments. The expansion of exports in manufacture is an essential requirement. This requirement is no longer a controversial subject, especially in countries in which the possibilities of net import substitution have been almost exhausted. Let us remember that import substitution has been less prompted by narrow economic nationalism than imposed by adverse conditions in the international economy (the Great Depression, the Second World War and the difficulties of the post-war period). And when these adverse conditions disappeared, the developed countries have been reluctant to open wide doors to the exports of manufactures from the developing countries. Consequently, while developed countries have intensified to an extraordinary degree their exchange of industrial goods during the past two decades, the developing countries have lagged behind and their participation in this trade has been relatively small. However, we have to recognize that, with a few exceptions, developing countries have not pursued a vigorous export policy, neither in relation to the developed countries nor among themselves.

49. As was said before, it is hard to imagine a fundamental change of attitude of developed countries during the next few years. The projections of the Organization for Economic Co-operation and Development (OECD) for its member countries indicate that the rates of growth of their economies will probably be much lower than in the past. It would therefore seem wise to seek additional ways of expanding industrial interchange through the development of reciprocal trade among the peripheral countries, thus promoting a sound industrialization process.

50. The constant concern of the United Nations agencies and particularly the United Nations Conference on Trade and Development (UNCTAD) and the regional commissions to promote this reciprocal trade in subregional or regional groupings or on a wider interregional scale should be accentuated in the light of new events.

2/ I must mention in passing that the possibility of the transnational corporations dominating the market has also been a negative factor in the advance towards a Latin American common market.

51. Efforts made until now have not been equal to the ample possibilities available for action. Vested interests, fear of competition and uncertainty about results have been factors that help to explain the resistance to the adoption of a consistent policy of reciprocal trade, except in a few cases of subregional agreements.

52. A reciprocal trade policy calls for dynamic impulses; these have been lacking and could now come into play under the triangular concept of the recycling of surplus resources from oil.

53. There are two forms of closely interrelated dynamic impulses: the demand for imports and the investments required to satisfy it.

54. The expansion of reciprocal trade requires that each country increase substantially its imports from the other countries of the region or regional grouping. And this has proved to be very difficult. No country is willing to take a risky initiative when, as is generally the case, all of them have already a tendency to imbalance in their relations with developed countries.

55. Now the oil-exporting countries are in a position to provide the dynamism that was lacking. Indeed, they have ample monetary resources and they do not suffer obviously from that tendency to chronic foreign disequilibrium. If they promote or take part in reciprocal trade agreements aimed at the gradual establishment of common markets, they can boost the demand for primary commodities and manufactures from the other participating countries. At present, the circumstances are very favourable because the oil-exporting countries have expressed their determination to apply their resources primarily for the acceleration of their development. As a result of this, the rate of growth of their imports will increase, perhaps more than their rate of development, as it generally happens. Hence, if a growing proportion of these imports comes from other participating countries, the dynamic effect can be considerable. For this to happen, however, a combination of essential conditions must be fulfilled:

A preferential trade policy among countries participating in groupings based on the progressive reduction and eventual removal of tariffs and other restrictions.

An investment policy that, in addition to other objectives, should be designed to develop industrial and agricultural activities with a view to meeting the demand of the participating countries and taking advantage of the opportunities to export to the rest of the world;

The establishment of payments agreements to promote trade expansion on a reciprocal basis.

56. The first condition calls for no further elaboration here. The investment policy has already been considered in the previous section. Therefore I only need to explain in broad terms what I have in mind in relation to payments agreements.

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57. They should be considered as a means to promote the expansion of trade between the members of a reciprocal trade grouping rather than as a monetary instrument. Let me explain what I have in mind.

58. A payments agreement should assure in one way or another that the additional resources obtained by a member country, from exports made to other participating countries, should be used by the latter to trade within the grouping. If there is no payments agreement, it may happen that, notwithstanding the preferential framework to which I have referred, the additional resources accruing to a country through its increased exports to other member countries will be spent in the purchase of imports from the rest of the world, especially in the industrial centres instead of from other countries within the group.

59. In order to understand how the mechanism could function, let us assume that an oil-exporting member country of a grouping increases its imports from another member. Given the great propensity to import from the industrial centres, if the latter uses these additional resources in this way, there will not be a further trade expansion within the grouping. In order to obtain this objective, it is essential that the additional resources thus acquired should be used in imports from other member countries. In other words, these additional resources should have a multiplying effect.

60. This does not mean to say that a payments system should be closed. In the last instance, the additional resources should be transferred to the rest of the world, but after fulfilling this multiplying function. An example would clarify this matter. Suppose that oil-exporting member country A increases its imports from member country B by 100 million units of account, based on United States dollars or SDRs. Country B has to use these additional resources in other member countries, except for a proportion immediately convertible in dollars or SDRs, say 10 per cent. In this fashion, countries C and D, as well as the original country A, receive 90 million units of account. This amount, except 10 per cent, is again to be used within the system, and so on. When trade within the grouping has been multiplied 10 times, the original 100 million units of account would have been converted to dollars or SDRs, which would have been used in payments to the rest of the world. In this way, the recycling of the original 100 million units of account would have been fully completed, but after having fulfilled its multiplying function.

61. Other forms of payments arrangements may be conceived, but it is indispensable that the convertibility should be geared in one way or another to this multiplying effect.

62. It is not my intention to outline here and now a concrete project, but only to mention the importance of a payments system in order to buttress the objective of trade expansion on a reciprocal basis. Far less is it my intention to go into technical details. Anyhow, this is a matter that calls for careful discussion.

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63. It is obvious that no trade and payments arrangement may succeed in the long run if oil exporters, that play the dynamic role that I have explained, do not have an equitable share in reciprocal advantages. Preferential concessions may not be enough, and here there is another important role for an investment policy. Its main objective should be to establish and develop activities that may play a role in helping countries to obtain reciprocal trade advantages, thus avoiding persistent imbalances inside the groupings.

64. The same considerations apply to other participating countries that owing to their weak position have not been able to fully obtain the advantages of reciprocity.

65. The conviction, reflected in the preceding paragraphs, concerning the need to develop an intensive flow of reciprocal trade between developed and developing countries does not imply that efforts should not be continued to obtain the liberalization of the imports of both primary commodities and manufactures by the industrial centres. The more these efforts lead to specific results, the greater will be the possibilities of accelerating the development of the peripheral countries.

V. Towards a new economic order

66. I have not sought, in this report, to underestimate the seriousness of this crisis and the great urgency of taking emergency measures to face it. But at the same time I have tried to call attention to the simultaneous need of exploring the great opportunity the present crisis offers to combine efforts of the three groups of countries in the direction of the New International Economic Order that is the great goal of the General Assembly of the United Nations. A new order in which the wide and growing disparities characteristic of the development process will have to be progressively reduced. This has not been the case until now. Indeed, the hope which was very widespread some decades ago, that the spontaneous forces of the economy would irradiate the prosperity of the centres to the entire periphery of the world economy, is far from fulfilled.

67. But there is an over-simplification in this concept of growing disparities. The discrepancy has occurred between, on the one hand, the centres and those more or less limited social strata of the peripheral countries which have benefited by the advantages of development and, on the other hand, the great mass of the population which continues to live in the serious anachronism of under-consumption and has been left behind economically, politically and socially in many developing countries.

68. The new international order would be a very precarious one if the problems that concern it were presented solely as pertaining to the relations between the centres and the peripheral countries without taking simultaneously resolute measures to attack social inequity in the developing countries themselves.

69. In these countries, the consumption patterns of the centres are making further and further inroads. There is indeed a real phenomenon of internationalization of the so-called consumption society between centres and privileged sectors of the periphery.

70. The conclusion is clear and final. A new policy of international co-operation in finance, trade and technology will not be sufficient. Its effects will be limited unless accompanied in the periphery by a vigorous policy of internal development with a strong social motivation.

71. An acceleration of capital formation in economic and social investments should be a keystone of this policy. The participation of the centres in this process of capital accumulation has not only been insufficient but has also largely been geared to the demands of the internationalization of the consumption society in the developing countries. The triangular mobilization of surplus resources from oil will not solve the basic problem of peripheral development, if the flow of financial resources from abroad continues largely to be a substitute for a greater internal effort of capitalization.

72. But it must be stated in all frankness that this greater effort at domestic capital formation is incompatible with the unrestricted growth of the consumption society in the developing countries.

73. This is not a goal that can be reached by the mere play of market forces. Nor are these forces sufficient to create the kind of relationships between centres and the periphery that a new international order demands.

74. But the problem inherent in the free play of market forces goes very much further. Market forces, however effective they may be in a limited economic and social context - as they undoubtedly are - have no time horizon. They do not take into account the future consequences of their action however refined they may be in the cost/benefit calculations of enterprises. The case of pollution is clear proof of this, as is also the socially irresponsible utilization of non-renewable natural resources. A deliberate policy is necessary to change the basic conditions on which they operate so that market forces can function with rationality from the point of view of the community at large.

75. The dramatic case of oil is obvious. Although this is a highly scarce resource, the profit motive had led to abusive exploitation and the real prices of this commodity had fallen persistently in relation to those of manufactures from the centres, with serious and also well-known consequences. I do not deny that market forces would have eventually pushed up the prices as oil reserves became depleted. But obviously, if this had occurred, the consequences would have been even more serious than those of the present crisis. This lack of foresight was bound to end in unilateral measures. Had a long-term policy been negotiated, I am inclined to believe that the timing and dimensions of a justifiable readjustment in prices would have been different.

76. The industrial centres have in general been reluctant to negotiate on primary commodities, and the developing countries, because of the relative weakness of their position, have suffered the consequences of this. It is a matter not only of attenuating the continuous fluctuations in prices or compensating for their effects. It is also a matter of improving the terms of trade of primary commodities vis-à-vis the manufactures of the centres when the low prices of the former are the result of the original fundamental weakness of some developing countries. Such is

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the case of a number of tropical products where low wages and the abundance of available land created an inequitable relationship many years ago which has persisted over the course of time.

77. This advantageous position of the centres and their much greater bargaining power have allowed them to take a higher proportion of the income of the periphery than could be justified by their effective contribution to the productive and trade process.

78. A far-sighted commodity policy is urgently needed. Among other important measures it should include stabilization or compensatory agreements. The creation of reserves or buffer stocks is of paramount importance in this respect. But there is something equally important. Most of the available land is in the tropics, where agriculture is generally characterized by primitive techniques and low yields except in some export activities. Technological research has hardly reached those areas, because it does not penetrate spontaneously into the poor sectors. There are neither sufficient incentives to increase production nor adequate technological support. The food crisis just had to occur!

79. Clearly, if the rate of population growth had been lower, this food crisis might have been attenuated or delayed. On the other hand, to put excessive emphasis in the need to control human reproduction means ignoring the fact that development consists of a complex of elements of which population is only one, though a very important one, and that the problem can be effectively tackled only through a global strategy embracing national and international measures.

80. The terms of this strategy have now undergone a profound change and the sooner the extent of the change is recognized, the better the course towards the new international economic order can be steered.

81. New formulae are needed in the light of the shift in the world's financial power that will respond to the interests of oil exporters, the centres and the peripheral countries.

82. I have tried in these pages to outline these formulae briefly. They are based on the coincidence of fundamental interests and on the need for convergent measures to deal with the new reality. If they help to stimulate discussion of the problems raised here, they will have fulfilled the purpose for which they are written.
